ONOMIC-INDUSTRIAL POWER—U.S.-BRITAIN vs. THE AXIS

The MAGAZINE of WALL STREET and BUSINESS ANALYST

APRIL 19, 1941

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-SYMPHONY OF INDUSTRY-

Westinghouse Electric Photos.

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With The Editors

Figures Don't Lie

IT'S TRUE that figures don't lie—but in these topsy-turvy times they can be uncommonly misleading. Over the next few weeks the statistics of greatest interest to investors will be those of first quarter earnings. In a majority of instances, as well as in the aggregate, substantial gains over a year ago will be shown, despite the two increases made in corporate taxes in the interim. But, as the military experts say, the figures "will have to be taken with the utmost reserve."

The first reservation to be made concerns reserves set aside for taxes. Everybody knows a further boost in taxes is in the offing but the precise rates to be imposed are conjectural. Anticipating the increase, some companies will figure first quarter profits on the basis of a 30 per cent normal Federal rate. Others will apply the present rate of 24 per cent and make adjustments in subsequent quarterly reports or at the year end, on the basis of the new rates. Thus earnings of otherwise comparable companies in a given industry may not be comparable.

Again, year-to-year gains in quarterly earnings lose most of their significance, if not all, if the change can not be accepted as a continuing trend. Obviously, we can not in the present situation bank on a projection of earning power at the first quarter levels even though total business volume is certain to rise. This is because we don't know what tax rates will apply to future earnings, how steeply operating costs will rise, to what extent selling prices will be restricted or controlled by new Federal moves, to what degree priorities will in some instances interfere with "business as usual."

Finally, all gains in first quarter earnings should be interpreted with some regard for change in volume. In the present war economy most business enterprises are up against a law of diminishing returns. That is, to maintain a given level of earning power, larger and larger sales volume is required. Industrial production in the first quarter averaged nearly 20 per cent greater than in the first quarter of 1940. While total first quarter profits no doubt will be more than 20 per cent up from a year ago, the gain will be far less than would normally result from so great an expansion in volume. While in 1940 a majority of companies earned more profit per dollar of sales than in 1939—excluding merchandising, baking, dairy products, foods, beverages, tobacco and rubber products—this year a majority will earn less per dollar of sales than in 1940.

About all the investor can tie to is the thought that enterprises sufficiently flexible and well-managed to have survived the difficulties encountered since 1929 have a better-than-average chance of surviving.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Industrial Variations Under War Conditions
By WARD GATES

Our Economic War Against the Axis
By V. L. HOROTH

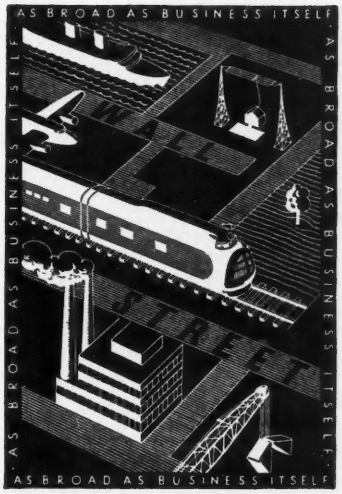
Buying Investment Values Today
By J. S. WILLIAMS

Charles Phelps Cushing Photo

The heavy industries are now literally swamped under an avalanche of business. New orders are being booked at a rate nearly double the highest reached in 1929. Backlogs are unprecedented and continually mounting. Capacity cannot be expanded fast enough to satisfy all demands. Result: industries not essential to the defense effort will go on a meager capital goods ration, their equipment will depreciate faster than it can be replaced, a potential post-war demand will be built up.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



The Trend of Events

DEFENSE SPEED-UP . . . Although the defense program can not possibly be speeded as much as we would like over the crucial spring and summer season of this year, at a time when war developments are none too cheerful it is reassuring to emphasize some of the stronger aspects of our position. Chief among these is the fact that long months of intense and difficult preparatory work are now close to the point of bearing abundant fruit. We are within a very few months of mass production of armaments on a major scale.

Mr. Knudsen last week told a House committee of the doubling of machine tool output in 1940, of tripling it this year; of production of 18,000 planes in sight for 1941, and possibly 36,000 next year; of rapid increases in output rate of small and medium tanks. And so on.

The production machine is far more vital than the product. Many cargoes of war goods for Britain will be sunk—but with the production machine in high gear we can replace them—and more—in short order. True, our ship output can not be expanded as rapidly as production of planes and most other armaments, but within a year this, too, will be in high gear; and even if the present high rate of sinkings is somewhat increased Great Britain will scarcely go under for lack of ships in the relatively short interim.

At the very worst—a British collapse—we need no longer fear Axis aggression in the Western Hemisphere. We will be too formidable for that to have a chance, long before the Axis will be free even to consider it. And there is no need yet to fear the worst. Between them, the United States and Britain have a much better than even chance of continuing to rule the seaways of the world. If this is so, no matter how far the Germans range on land they will eventually be brought to heel. Land power has never yet vanquished sea power. Although German air power has importantly changed the equation, Nazi superiority here is also temporary. We and Britain are moving fast toward the most tremendous air power the world has ever known. Berlin will feel more of it before she feels less.

WAGE-PRICE SPIRAL . . . An inflationary upward spiral of wage rates and prices is now strongly under way. A rise of 16 per cent in hourly wage rates granted by one of the largest independent steel companies will inevitably be followed by the rest of the industry. Textile workers in many mill districts recently obtained a 10 per cent increase. In most cases strikes are being settled only by granting all or a major part of union wage demands.

The index of 28 basic commodities compiled by the Bureau of Labor Statistics recently advanced to a new

high for the war period at 136.5, comparing with previous high of 127.2 in September, 1939, and reaction low of 105.5 in August, 1940. All sub-groups in this index have reached new highs. Since the middle of last August foodstuffs are up a maximum of 38 per cent, industrial raw materials by 25 per cent. Wholesale and retail prices are rising, with the usual lag behind basic commodities and wage increases.

The question is not whether we are going to have inflation. We *are* having it. On the whole the profit margin in business is not wide enough to absorb steadily rising wages and higher costs of raw materials, without increased prices to the consuming public. The only question now is how far the spiral will run. This depends less upon economic factors than upon the wisdom and firmness of Government controls. The Government certainly has it within its power to restrict the spiral to smaller proportions than that of the World War period.

Apparently little or nothing will be done to restrain wage increases, the high wage policy being similar to that in England. This being so, the Government must recapture an increasing proportion of labor's rising income through taxes and defense borrowing to prevent it from resulting in a greatly inflated demand for consumer goods at soaring prices. An intricate problem of timing is involved. Full employment and a national income of 90 to 100 billions of dollars (of current purchasing value) are desired. But if 100 billions of income a year or two hence will buy only what 80 billions will now buy, we shall not be any better off. We are beginning to roll along at a potentially dangerous speed. The prudent course is gradual and progressive application of the brakes. Stopping inflation only after you have had too much of it is exceedingly painful and costly.

BRITISH WAR EFFORT . . . The small minority of super-isolationists who said that lend-lease aid would mean that we would "hold the bag" for Britain should hang their heads in shame as they contemplate the recently announced British budget.

It projects a war expenditure for the next fiscal year which is equal to fully 70 per cent of the nation's normal income and to more than 50 per cent of the present war-inflated national income. To finance part of these huge expenditures, the British people will pay income taxes ranging from 50 to 97½ per cent and reaching down severely to very low income brackets.

Britain, in truth, is throwing all she has into the pot without stint and without complaint. Her foreign investments, which normally bring in annually the equivalent of a billion dollars, are being sacrificed in large measure. Shipping routes important to her trade but not vital to war have been turned over to trade competitors. Maybe they can be regained after the war, maybe not. Churchill's Britain is not counting the cost nor estimating the aftermath. They have literally gone all out for war.

Sacrifice? Americans don't know the meaning of the word. Here we are bickering over wages and profits and fretting over the prospect that the normal income tax rate will be raised from 4 to 8 per cent.

STRIKES . . . The turn for the worse in Britain's fortunes of war will certainly make American public opinion all the more intolerant of strikes in national defense industries. It is already exceedingly impatient, as every member of Congress knows from his mail.

The handwriting is starkly plain upon the wall. Stupid and overambitious union leaders will either get wise very soon or have restrictive Federal legislation jammed down their throats. There is considerable evidence that adverse public opinion is already becoming effective, however, for strikes have declined in number and importance over the past ten days and on the average are being more quickly settled.

In all fairness it must be acknowledged that the blame is not solely that of labor organizations. A minority of "Old Guard" employers are still fighting the Wagner Law and conducting labor policy through their lawyers. The most serious strikes to date have been aimed at precisely this type of corporation. Maybe the Wagner Law is a bad law. Certainly it is a one-sided law. But it *is* the law of the land and the vast majority of employers are abiding by it in letter and spirit. Those who are not have no more standing in the court of public opinion than have the obstructive labor leaders.

It would be futile and unwise to pass a hastily written law or set up new machinery to deal with this situation. We have plenty of law and an excess of mediation machinery—Federal and local—now. If these devices are not working well, why suppose that new ones would? What is needed is genuine fair dealing between labor and managements and a sense of patriotic responsibility by both. Moreover, both sides—and the Administration—would do well to reflect on the fact that it is public money which is meeting the payrolls in the armament plants. The managers of these plants and the employees are working for the Government. Fundamentally, they have no more right to stop production arbitrarily than the postmen have to halt delivery of the mails.

FRENCH INFLATION AGAIN? . . . While business in France stagnates and the disrupted status of the country prevents successful tax collections, currency circulation is alarmingly on the rise. Last year, the Bank of France increased its currency circulation by 68,000,000,000 francs. German occupation and reparations demands are tragic, indeed, but nothing compared to what may come if Germany defeats Britain, thus winning the current war.

At the end of the past year, the Bank of France had gold holdings of over 84,000,000,000 francs, compared with 97,000,000,000 francs at the end of 1939, but most of this probably would have to be turned over to Germany if she were completely victorious. As the inflation specter rears its ugly head in France again, the German occupation authorities show no inclination to squelch it. Instead, it appears that the real aim is actually to produce a currency inflation in France similar to that which occurred in Germany after the World War.

So the great critic of the Versailles Treaty already begins to reveal its hand on the "constructive" type of action it may be expected to take if victorious.

As I See It!

BY CHARLES BENEDICT

WASHINGTON OR BERLIN?

EVENTS in Europe show us plainly the risks we are continuing to run in dilly-dallying with regard to our position in this war. We have already taken so many steps against Germany that common sense should tell us there is no drawing back at this late date. If the Nazis win, they will make us pay for it if they can.

Still, we continue to follow the practice of indirection in vogue among the hapless European nations under the thumb of Nazi might, and which is not at all suited to our position. The United States is a powerful country and if we insist on acting like a weak sister, we are only courting disaster.

It is about time that we rid this country of the German agents and subversive elements that are attempting to destroy us from within and those who are supporting the Nazis financially and economically by every scheme and trick imaginable.

And we should stop fooling ourselves about Russia, too. If we need any real evidence as to Russian intentions, we have it right here in this country where the Communists are doing everything they can to throw a monkey wrench into our war machinery. Clearly, they are working hand and glove with the Nazis.

The friendship pact with Turkey and with Yugoslavia, the rebuke to Hungary about which there has been so much to-do, represent just another bit of camouflage—worthless pieces of paper, useful to Russia alone in creating uncertainty as to her real position and aims, while enabling her to retain advantages detrimental to us and useful to Germany. The new Russo-Japanese pact is bewildering only to wishful thinkers.

Vichy France, too, is playing a double game and for the same reason. Who can doubt that the German troops and the large quantities of mechanized equipment in Western Africa and Libya were transported there by Admiral Darlan? We have just got to recognize that Hitler has Vichy France in his pocket, and that the United States is included in the French animosity against Britain—only more so—because we refused to risk war with Japan in defense of Indo-China.

If the Germans are victorious in the Near East, the French fleet is bound to be used against the British. The swift success of the German blitz in the Balkans and in Africa came as a great surprise because the reports indicated that the British were fully prepared to push their way up from Greece in force, equipped with all the appurtenances of a modern war machine. The willingness of Greece and Yugoslavia to defy Hitler encouraged this belief, as the realism of the astute Balkan leaders was well-known. Besides, it did not seem possible that Britain could afford to risk defeat and the possibility of its effect on the morale in the British Isles and on the attitude of Turkey and the Arab leaders who would hesitate to make definite commitments under such circumstances.

At the moment, therefore, the British position will receive a psychological setback because of the fears of the future that are aroused by this situation—while the new Russo-Japanese agreement can further weaken the ties that Britain had made in the Arab world this last winter.

There is every evidence that Turkey will not fight on the side of the Allies; that in evacuating her nationals from Europe she is taking steps designed to prevent a clash with Hitler. The Nazi coup in Iraq at Turkey's back door will also be a deterrent, with fear augmented

(*Please turn to page 56*)

What of Stock Prices Now?

Further downward drift appears likely over coming weeks and we would favor partial investment buying only in the improbable event that the early future produces a very sharp break and an over-sold condition.

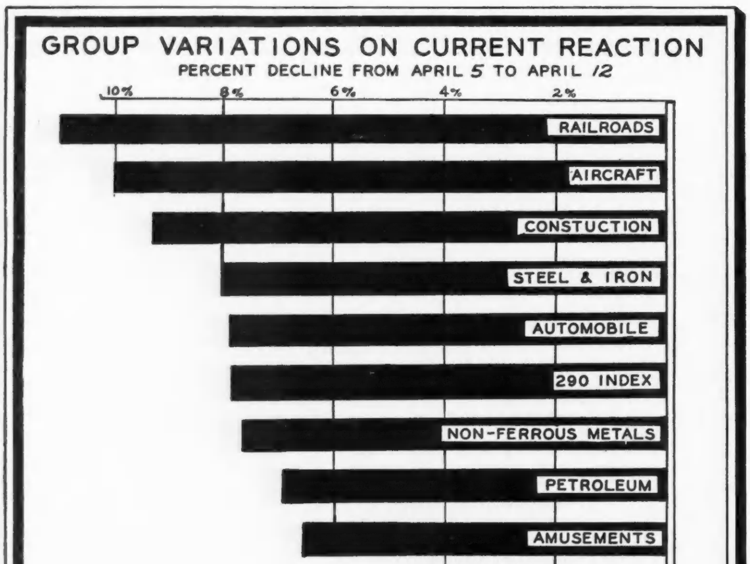
BY A. T. MILLER

RENEWED decline in the stock market must be weighed against the following summation of news developments bearing upon the war and the position of the United States:

(1) Spectacular initial success by the Germans in their Balkan campaign.

(2) Cancellation of Britain's gains in Libya; penetration of the Egyptian frontier by mechanized Axis forces; further infiltration of Germans into French Morocco; strengthened Nazi threat to Suez, the Near East, Gibralter and all of north Africa.

(3) Announcement from Moscow of the Russian-Japanese non-aggression pact, with official reaction from chief world capitals varying sharply as to its implications in relation to the war in Europe and to future events in the Far East.



In the United States the more significant recent developments were:

(1) Assumption of an American protectorate over Greenland.

(2) Re-opening of the Red Sea to American ships on action of the President.

(3) Presidential request of Congress for authority to acquire ships of certain belligerents in our ports.

(4) New measures of price control and intensified efforts to speed arms production and get it in British hands.

Since forecasts on the war itself to date by even the best qualified military experts have been none too accurate, we have no intention of venturing into that field. We have no idea how long British-Greek forces can hold out in Greece or how effective may be the guerrilla tactics of scattered Yugoslav forces.

We don't know whether the British will or will not suffer an irretrievable disaster in Africa and the Eastern Mediterranean. We don't know how much or for how long Nazi efforts in the Balkans and Africa will interfere with their concurrent efforts in the crucial Battle of the Atlantic. We don't know whether the real significance of Japan's newly won Russian pact is military or diplomatic, although our hunch is that it is the latter.

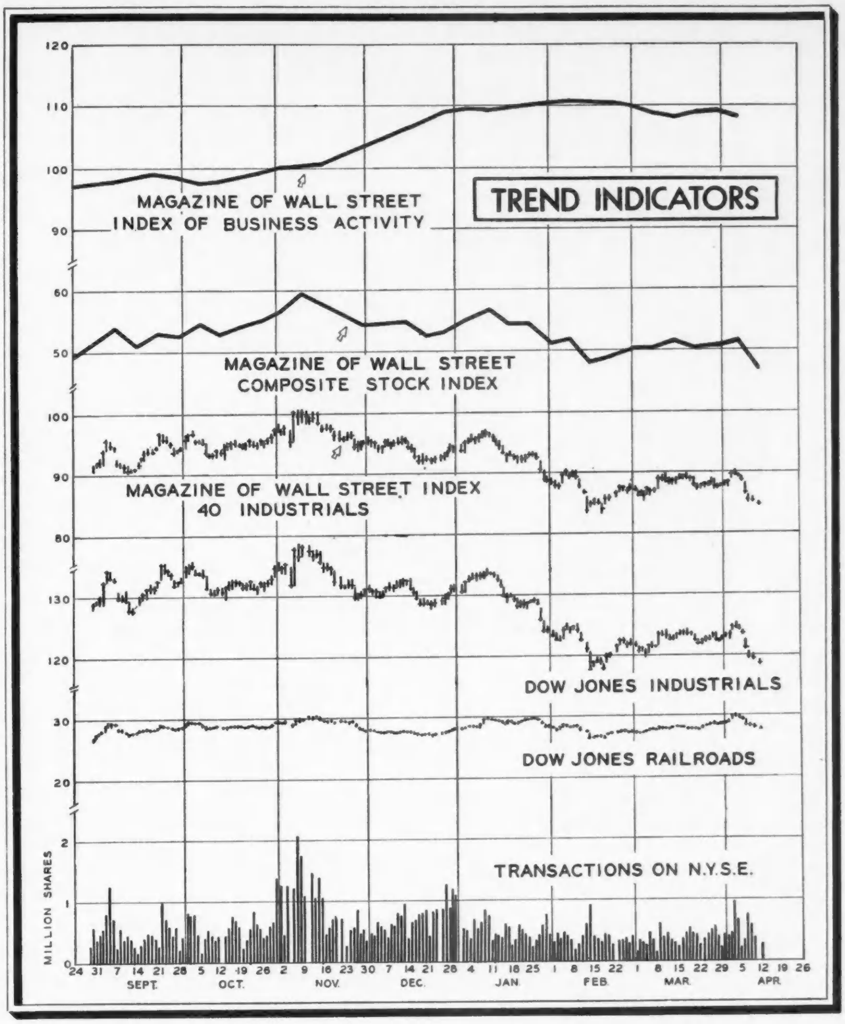
As for the Balkans, Hitler can not win his big war there and, indeed, can win very little that he did not already have. The entire region has long been very largely within the economic orbit of Germany. In any event Hitler will have to pay a considerable price for something he had expected to get for nothing. Assuming complete German success, even possibly within a matter of weeks, Hitler "wins" two more hostile populations that will have to be policed, more sabotage, a curtailed source

of supply. The economic damage being done, costly to Germany as well as to the invaded countries, will take many months to repair.

The potential German threat to Suez, the Near East and North Africa is much more important than anything which may happen in the Balkans. It represents, as does the Battle of the Atlantic,, a Nazi grasp for world power, as distinct from domination of the continent of Europe. It is aimed at major parts of the British Empire. If successful, it will increase the strain on the heart of the Empire, tend to reduce that heart's power of resistance.

Just as the fall of France—and the resultant threat to the balance of power in the Atlantic—launched the United States on its huge armament program and its dynamic aid to Britain policy, so the latest British setbacks will react upon our policy.

As a matter of basic strategy the Administration is committed to a defeat of the Axis. The tactics to date have been to try to bring about this desired result at the least possible cost; to avoid formal involvement in a "shooting war" by providing Britain with sufficient aid to make such involvement unlikely. It goes without saying that any major reverse for the British is a reverse for our non-belligerent aid to Britain policy—to that extent carrying us nearer to involvement in actual hostilities whether or not war is formally declared.



In what has happened there is no such element of shocked surprise as accompanied the collapse of France; and potentiality for equivalent shock from future events has been substantially eliminated by months of psychological adjustment to the grimmest contingencies. Hence, we do not fear a panic collapse in the stock market, and we think the absence of large volume liquidation on the current reaction to date is understandable.

Nevertheless, the market—like the British Empire—is on the defensive; and it is not possible to predict how far the orderly, but persistent, erosion of values will go. As this is written, the industrial average is only a fraction above the low of February.

It is possible, of course, that the bottom resistance level of February will hold; but we think the odds are against it, and anyway we would demand a convincing test rather than gamble on a hopeful assumption. Our weekly index of 290 issues—much more representative of the rank-and-file of the market than the industrial averages—has made a new low for the year by a small fraction. Moreover, out of the 43 group indexes which we compile weekly, 20 groups have made new lows for the year or longer. These include the following:

Agricultural implements, aircraft, air lines, automobiles, motor accessories, building, copper and brass fabricators, dairy products, drugs and toilet articles, finance companies, furniture and floor coverings, liquor, machinery, mail order stocks, non-ferrous metals, public utilities, rail equipments, steel and iron.

Again, numerous important individual equities have made new lows, including American Telephone, Bethlehem Steel, United States Steel, U. S. Gypsum, International Harvester, American Smelting, Chrysler, General Motors, Caterpillar Tractor, Inland Steel, Montgomery Ward, Phelps Dodge and United Fruit.

As for months past, the market responds more readily to bad news than to good. It takes more volume to put it up than to put it down. In the improbable event of a bearish blitzkrieg over the next fortnight, reducing values very sharply, we would favor partial utilization of investment funds, as outlined in our issue of February 22. Assuming slower downtrend—which we believe likely over the next one to two months—there will be no need for haste on the buying side.—Monday, April 14.

Brown Bros.

Charles Phelps Cushing

Changing Investment Status for Equities, Preferreds and Bonds

BY J. S. WILLIAMS

Broadly speaking, there are two types of securities: (1) highest grade bonds and preferred stocks on which the continuity of fixed income return to the investor is as secure as anything human can be; and (2) all others. The latter present all degrees and shadings of risk, from very great to slight.

Again broadly speaking, when a nation goes to war or prepares on a major scale for possible war the net effect of the resulting economic and financial changes is to increase the risk factor in greater or lesser degree among the great majority of securities of type (2), with exceptions only proving the rule; and to put securities of type (1) more or less on the defensive.

Briefly considering the last point first, in a war economy the *tendency*—whether strong or slight—is for interest rates to rise, correspondingly lowering the market prices of "money securities." There is also a *tendency*—it was strong in the World War period and is slight in the present war thus far—for the cost of living to rise, correspondingly reducing the purchasing power of fixed income. The interest rate factor affecting highest grade bonds and preferred stocks is a matter of concern to institutional investors. Both the interest rate factor and the cost of living factor are a matter of concern to the individual investor.

Preferred stocks of highest investment quality are currently priced at an average approximately 5 per cent under all time highs. Under better control, long term Treasury bonds are now less than 2 per cent under former highs. The evidence of recent months suggests a probability that the long bull market in "money issues" has topped out. If this is so, the alternatives are gradual

additional decline or, excepting for possible temporary psychological shocks, a flattening out of prices along a plateau fairly close to present levels.

No one can give a confident long-run answer—but for the purposes of the overwhelming majority of *individual* investors no answer is needed. For them negotiable "money securities" at present prices would offer very scant income attraction even if there were no doubt whatever concerning future prices.

We speak of negotiable securities advisedly. The non-negotiable National Defense Savings bonds, on which the Treasury will soon launch a selling campaign, possess various features which should appeal to great numbers of conservative investors, quite aside from the patriotic motive.

As concerns medium grade and speculative securities —whether equities, preferred stocks or bonds—under a war economy there develops a radical distortion of the normal relationship between market values on the one hand and corporate earning power on the other hand.

Capitalization of Earnings

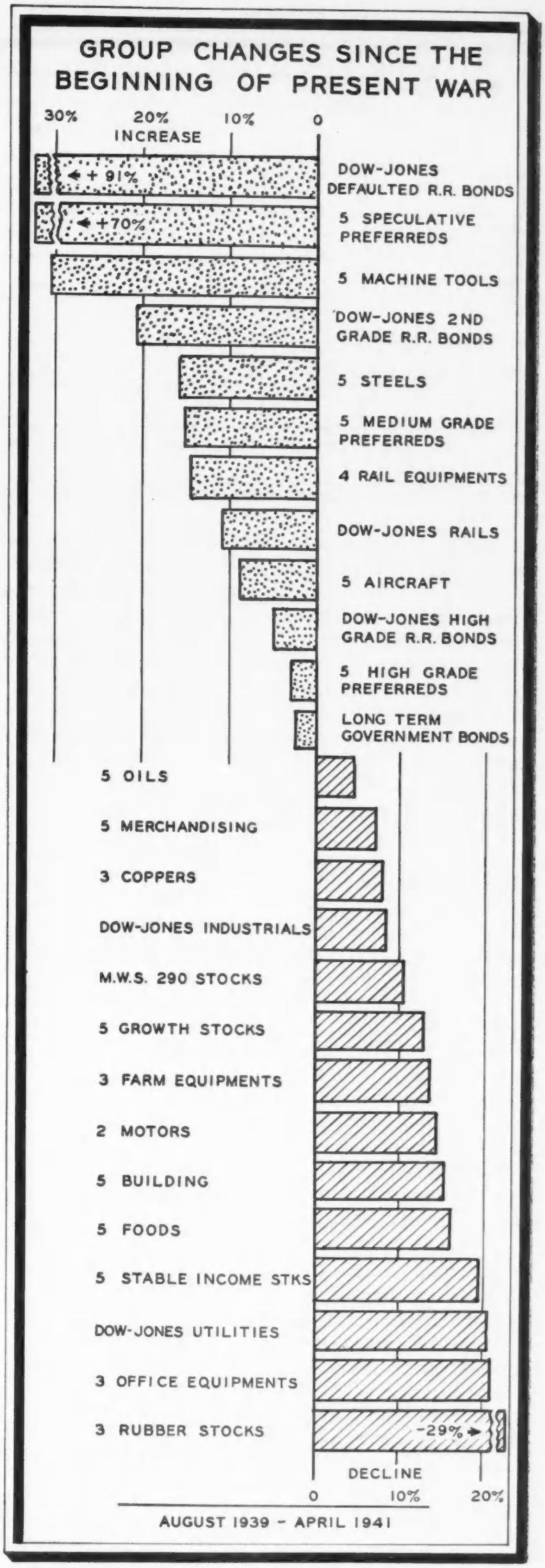
Market values represent a frequently changing capitalization of earning power, present or potential, arrived at by consensus—right or wrong—of investment and speculative opinion. Continuing earnings, obviously, are worth more than temporary earnings. This is one of the most influential reasons why, at any given time, individual equities show very wide variations in price-earnings ratios. And because of the exceptional uncertainty attaching to all corporate earnings in a war economy, average market prices are abnormally low in relation to earnings and dividends.

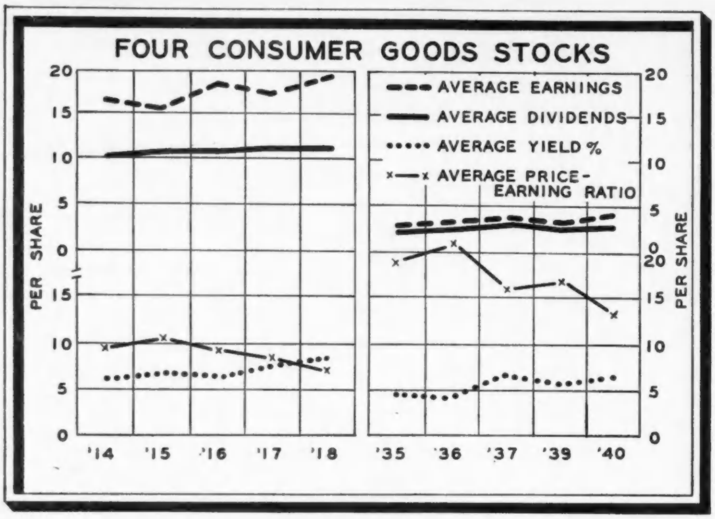
Both the duration and outcome of the war are unpredictable. The maximum levels of taxation that may be attained before the defense emergency ends are unpredictable and this question will be only partially and temporarily answered by the tax legislation to be drafted later this spring. The ultimate severity and economic effects of tightening Government controls—especially price-fixing and materials priorities—are unpredictable. The social and economic aftermath of the war are unpredictable.

Under the conditions confronting us, the earning power of numerous companies will be reduced and the capitalization of the reduced earnings will also be lowered. This applies especially to enterprises getting little or no gain in gross revenues out of the armament boom and characterized by relative rigidity of operating costs and selling prices. Examples include utilities, packaged foods, proprietary products. We can also expect lower earnings and lower price-earnings ratios for companies which have to give up an important percentage of profitable normal volume in order to concentrate facilities on less profitable armament business. Automobile companies constitute the outstanding example.

Some companies with a very poor record of normal earnings are now making large profits on armament orders. In such cases there is simply no rational *investment* basis upon which profits can be capitalized—which explains why some stocks are now priced at only three to five times 1940 earnings per share.

This is not to say that the average level of the market





can not rise substantially. The development of a concensus that the war will last for a period of years and will end in a Hitler defeat could conceivably bring a marked change for the better. But the point we stress is that under war economy conditions it takes a much larger gain in earnings to bring about a given degree of appreciation—whether in individual securities or the market as a whole—than in time of peace. This is both because the continuity of earning power is abnormally uncertain and because the proportion of windfall war profits distributed in dividends is never as great on the average as in peace time.

Although differing in detail and degree, the tendencies at work are generally similar to those which operated in the World War period. From 1914 to 1916, the latter year being the most profitable of the war period, aggregate earnings of industrial companies increased by 415 per cent but industrial stock prices increased only 73 per cent and the major part of this gain was wiped out in the early post-war depression. In the first half of 1914 industrial stocks were priced at an average of about 45, had earnings at the annual average rate of \$3.29 per share and the average price-earnings ratio was 13.77. In 1916 the average price was 68, average net \$16.95 and price earnings ratio was 4.04.

The gain in "war baby" earnings per share was far greater than it is likely to be under present conditions—partly because share capitalizations then were generally smaller than now but mainly because profit margins on Allied war orders were very rich. Thus United States Steel earned nothing on its common stock in 1914, \$9.96 in 1915, \$48.48 in 1916, \$39.15 in 1917 and \$22.10 in 1918. And while earnings for the four years 1915-1918 averaged just under \$30 per share, dividends distributed to stockholders over the same period averaged only \$9.70 per share.

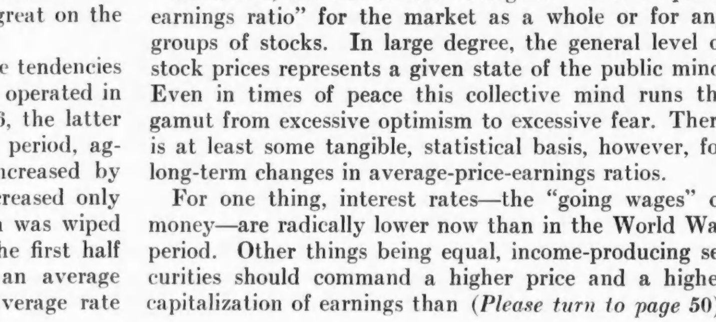
In the accompanying charts we trace average earnings, dividend, yield and price-earnings ratios of a group of four representative "war baby" stocks for the period 1914-1918 and for the years 1935-1936-1937-1939-1940. The stocks are Anaconda Copper, U. S. Steel, New York Air Brake and American Steel Foundries. Similar comparisons are made for a group of four consumer goods stocks, consisting of American Tobacco, National Biscuit, Sears, Roebuck and Woolworth. The most significant common tendency is a declining trend of price-earnings ratios for the duration of the war. The most pronounced difference is that price earnings ratios for both groups were much lower in the World War period than now.

Thus the price-earnings ratio for the four "war babies" was 26.5 in 1914, 8.6 in 1915, 2.23 in 1916, 3.47 in 1917 and 5.35 in 1918. This group commanded a price-earnings ratio of 7.78 in 1940—much higher than the World War average—but far under the ratios of 20.65 in 1936, 13.58 in 1937 and 20.45 in 1939.

Taking the first and last World War years, the four consumer goods stocks sold on an average yield basis of 6.25 per cent in 1914 and a price earnings ratio of 9.88 and in 1918 sold on a yield basis of 7.90 per cent and price-earnings ratio of 7.05. In 1936 the yield was 4.67 per cent and price-earnings ratio of 21.7; in 1939 yield was 5.76 per cent and price-earnings ratio of 16.43, in 1940 yield was 6.26 per cent and price-earnings ratio 13.11.

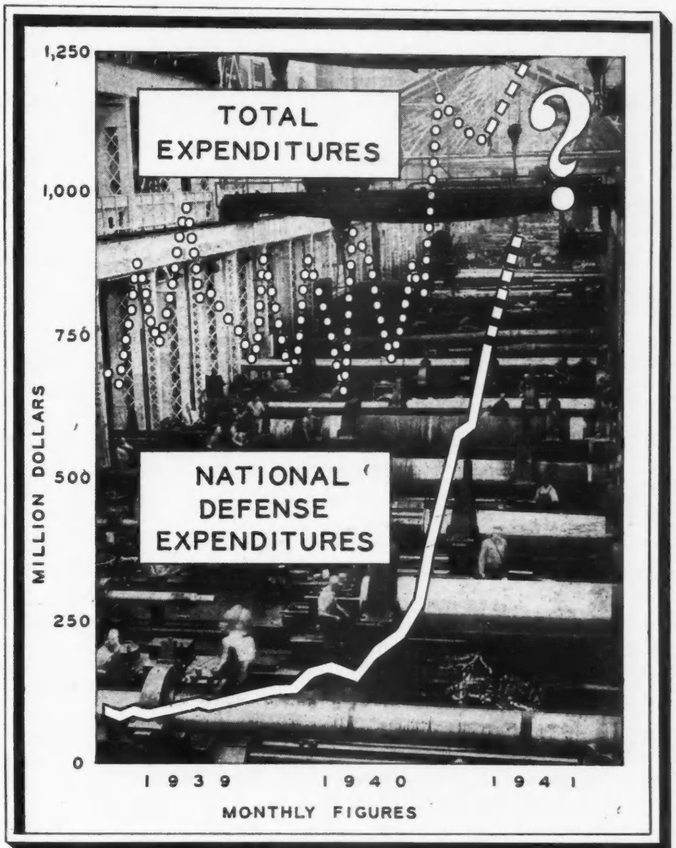
Of course, there is no such thing as a "normal price-earnings ratio" for the market as a whole or for any groups of stocks. In large degree, the general level of stock prices represents a given state of the public mind. Even in times of peace this collective mind runs the gamut from excessive optimism to excessive fear. There is at least some tangible, statistical basis, however, for long-term changes in average-price-earnings ratios.

For one thing, interest rates—the "going wages" of money—are radically lower now than in the World War period. Other things being equal, income-producing securities should command a higher price and a higher capitalization of earnings than (*Please turn to page* 50)



Evaluating 1941 Profits on Defense Orders

BY PETER B. B. ANDREWS



Wide World Photo

THE incoming wave of defense orders gains momentum daily, but it still is not much more than a ripple compared to the tidal proportions it is scheduled to attain. While there have been contract awards of around $15,000,000,000 in the defense program to date, *only about a quarter of this actually has been spent;* disbursements by the Treasury in actual payment of defense bills are less than $4,000,000,000. Defense orders are saturating the American business structure at a rate now of about $800,000,000 monthly, but even this looks minor in the light of contemplated expenditures of over $40,000,000,000.

Defense officials are aiming, of course, at all out speed and they are hoping to complete the program within the next two or three years. Analysis of the figures, however, show what a collossal achievement such a result would be. To spend the aggregate contemplated in, say two years would require an absorption at a rate of more than $1,650,000,000 monthly. To pile the awards on our domestic economy in, say, three years would involve outlays at over $1,100,000,000 each month.

Even with the "mere" $4,000,000,000 really spent to date, our country's production structure is straining and creaking under the load. The never-again-attainable tradition that characterized the "great" year 1929 has been shattered to bits as the line of durable goods output breezed through the 1929 record to the current new all-time high. Total production now is running approximately 17% above the 1929 peak, and as indicated above, our armament program has not much more than started. New orders for capital goods, in fact, are over 80% above those of the 1929 top.

Without going into the question of whether or not the program as contemplated can, or ever will be, carried out in full (and moot question it is, too), let us discuss the billions already awarded and what profits might accrue from these tangible allocations to various American corporations. In this article we carry two lists of companies: those with defense orders over $100,000,000 and those with $20,000,000 to $100,000,000. The tabulations are far from complete; the awards are so extensive and have included so many small companies that to list them all would take perhaps ten pages of the current issue of the magazine.

The fast-moving nature of the defense program, too, may mean an overnight doubling or trebling of orders in individual cases over the amounts listed; this is so particularly because defense officials can now find very few additional manufacturers able to assume new contracts in large amounts for early delivery. Moreover, the totals listed are restricted to an aggregate of the formal contracts announced by the War and Navy departments. Numerous contracts are not announced publicly (or are increased without announcement), with the consequence that considerable understatement may exist in some of the figures shown. Then, too, records of British orders are kept confidential and are not included

Approximate Defense Orders

(Over $100,000,000)

Name of Co.	Approx. Size of Orders
Bath Iron Works	$127,300,000
Bethlehem Steel	1,048,700,000
Boeing Aircraft	150,100,000
Consolidated Aircraft	224,600,000
Cramp Shipbuilding	123,300,000
Curtiss Wright (Incl. Wright Aero)	621,900,000
Douglas Aircraft	231,100,000
E. I. du Pont de Nemours	178,400,000
Electric Boat	123,500,000
Ford Motor	146,300,000
General Motors (Incl. Allison Eng.)	307,300,000
Martin, Glenn L.	220,000,000
Newport News Shipbuilding	396,600,000
New York Shipbuilding	434,000,000
North Ame ican Aviation	132,800,000
Remington Arms	266,200,000
Seattle-Tacoma Shipbuilding	182,800,000
United Aircraft	211,100,000
U. S. Steel	465,000,000

in the totals. These in many instances may be larger than domestic orders.

Last year the Big Four in the defense program were shipbuilding, aircraft, machine tools and steel. The major categories to date this year are shipbuilding $6,000,000,000 appropriated, $4,470,000,000 awarded; aircraft $3,120,000,000 appropriated, $2,500,000,000 awarded; ammunition and explosives $1,800,000,000, appropriated, $1,000,000,000 awarded; industrial facilities $1,630,000,000 appropriated, $1,150,000,000 awarded; artillery and small arms $1,440,000,000 appropriated, $600,000,000 awarded; cantonments, depots, posts, etc., $1,270,000,000 appropriated, $900,000,000 awarded. Machine tools, steel, metals and numerous related industries will, of course, receive huge indirect orders from the above awards.

This overwhelming aggregate of orders and potential orders and the enormous activity likely to grow out of them would mean tremendous profits, indeed, if it were not for the many prevailing and potential influences destructive to profit margin. In the first place, the Administration feels (and perhaps rightly so) that our armament activity should bring no profit bonanzas. The large majority of business men feel the same way on the matter, but, as pointed out by Irving S. Olds, chairman of United States Steel Corp., if the nation's productive mechanism is to continue to function effectively, the earnings of any basic industry over the years should be sufficient to pay a reasonable amount to the owners, to attract additional capital and to permit retaining enough money to provide for technological progress and for future emergencies.

A reasoned conclusion may be made that the Administration is by no means in favor of annihilating profits, but there is basis for apprehension over profits due purely to the natural course of financial and economic events. The great Federal outlays are not gifts from the gods; they represent existing or potential payoff. The alarming rise in debt forces turning to a large increase in taxes; in this word "taxes" is the basis for anticipating an unusually sharp shrinkage in profit margins for 1941, as compared with 1940.

Based on revenues from existing taxes, the Federal deficit for the next fiscal year appears likely to be $10,000,000,000, this being after applying against current expenditures a tax yield of over $8,000,000,000, exceeding that of the highest yield of taxes imposed in the World War. Tax schedules which *already exist* take as much as 62% of increases in corporate income, and current reports indicate that a large part of any increase in earnings is absorbed in taxes. Not only is the normal corporate income tax likely to be notched further upward (probably to 30%, from the current 24%), but there will be a strong stiffening of excess profits tax schedules, with the possibility, too, of an over-all blanket tax of some sort at the sales course.

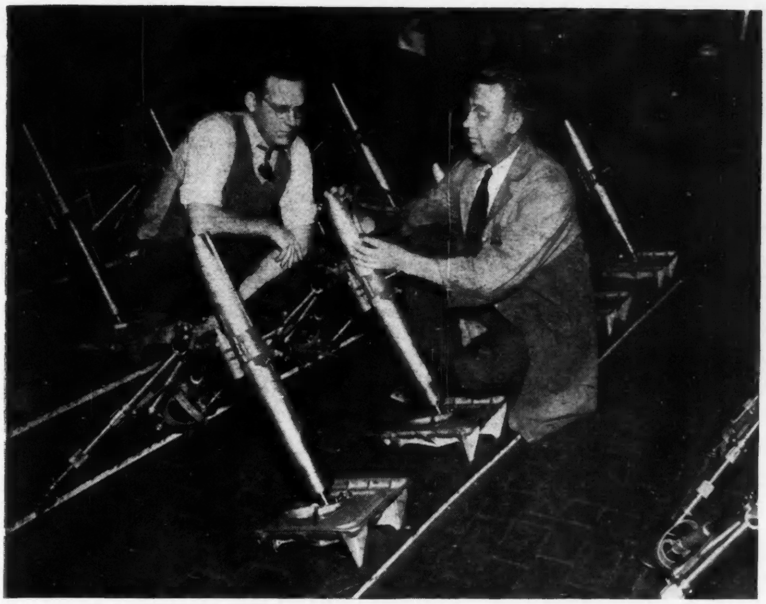
In the days of the Vinson Act, the earnings possibilities from a Government contract were easy to compute because of exact percentage limitations on profits from the business. The excess profits tax legislation of 1940 replaced these restrictions as an automatic taker of unusual profits in any event. Recently enacted amendments to the excess profits tax law have eased the strain on so-called "growth companies," but these gains will be engulfed by a wide margin in the coming changes aimed at harvesting and threshing defense program dollars.

Analysis of how greatly a company will benefit from the defense program orders it may have not only must take into account the above highly important tax considerations, but such weighty factors as possible labor troubles (higher wages, strikes, labor shortages), priorities and competition for raw materials, higher prices for

Approximate Defense Orders

($20,000,000 to $100,000,000)

Name of Company	Approx. Size of Orders	Name of Company	Approx. Size of Orders
American Car & Foundry (Incl. Carter Carburetor)	$67,600,000	Gulf Shipbuilding	$31,800,000
American Locomotive	43,000,000	Hercules Powder	59,000,000
American Woolen	41,300,000	Ingall Shipbuilding	45,800,000
Associated Ship Builders	35,700,000	Johnson, Draper & Piper	37,200,000
Atlas Powder	28,000,000	Lake Washington Shipbuilders	53,700,000
Baldwin Locomotive (Incl. Standard Steel Works)	40,600,000	Lockheed Aircraft	45,900,000
Beech Aircraft	36,000,000	Los Angeles Shipbuilding	46,700,000
Bell Aircraft	26,000,000	Manitowoc Shipbuilding	31,500,000
Bendix Aviation	63,700,000	Moore Drydock	46,700,000
Brown & Root	27,300,000	Packard Motor	70,400,000
Chrysler Corp	90,000,000	Procter & Gamble Defense Corp.	28,300,000
Colt's Patent Firearms	28,900,000	Republic Aviation	63,200,000
Consolidated Engineering (Incl. Arundel Corp.)	25,600,000	Savage Arms	44,800,000
Consolidated Steel Co	92,400,000	Allis-Chalmers	45,000,000
Continental Motors	45,300,000	Sperry Gyroscope	56,000,000
Day & Zimmerman	34,500,000	Studebaker	83,700,000
Diamond T Motor	28,400,000	Sun Shipbuilding	83,800,000
Eastman Kodak	21,500,000	Todd & Brown	26,800,000
Fairbanks Morse	24,700,000	Turner Construction Co.	68,300,000
Fairchild Aviation	21,500,000	U. S. Cartridge	87,300,000
Geo. A. Fuller Constr. (& Merritt, Chap. & Scott)	44,000,000	Vultee Aircraft	41,300,000
General Electric	53,600,000	Western Cartridge	24,600,000
Grumman Aircraft	43,900,000	Westinghouse Electric	54,200,000
		White Motor	45,700,000
		Willamette Iron & Steel	25,000,000
		Yellow Truck	92,800,000



Wide World Photo

16 m.m. mortar field guns being inspected at Watervliet, N. Y., arsenal.

raw materials, Government frowning on price advances of finished products, costs of expansion and the question of whether the Government or the company itself is financing plant expansion. On operations of a Government-financed plant, profits reasonably may be expected to be smaller than on a privately-financed plant. Many companies, in fact, are patriotically operating plants on the basis that such activity will result in no loss and no profit to the company.

The question, too, of how lend-lease arrangements will affect existing and future contracts for the British is of importance, also. On the new basis, such business will be handled through our Government, and, of course, no such fancy profits as were formerly available on this business will accrue on the coming contracts. This may mean a dropping in the profit margin from as high as 20% to around 5% to 10%, representing the average on the general run of domestic contracts. The stratum of the defense program in which the company's work fits must be considered, too. For example, the machine tool industry will be one of the first of the major industries to "top out," as tooling up for the defense program must be completed as soon as possible. Plant construction likewise will fade out early; in fact, a long period of hungry years for this particular industry will follow the plant over-expansion necessitated for the current armament program.

Applying this formula to specific companies, among which are listed some of the major beneficiaries of the defense program, let us take first Bethelehem Steel Corp., order books of which are choked with over $1,000,000,000 of defense business. This is more than 1.6 times the total sales of the company in 1940 and over 12 times its net operating income for the year. It is questionable if the company can complete this amount of business in 1941, since it operated at capacity throughout 1940 in its shipbuilding division (in which the majority of orders are concentrated), and not far from capacity in its regular steel operations. It must be remembered that these are defense orders only; normal commercial orders could easily account for $400,000,000 more business this year.

We can thus be sure of record-breaking sales in 1941. However, higher wage costs appear certain this year, and the company will have no "out" along the lines of raising prices. In fact, the NDAC has just issued domestic and export schedules for iron and steel scrap and has set a definite ceiling on prices. Further such moves are imminent. The squeeze on profits is automatic. Strike troubles as an earnings drawback are a distinct possibility, too. The re-routing of British business through our Government as a result of the Lend-Lease Act, will take a further cut of profits, while the greatest profit shrinkage will come as a result of taxes.

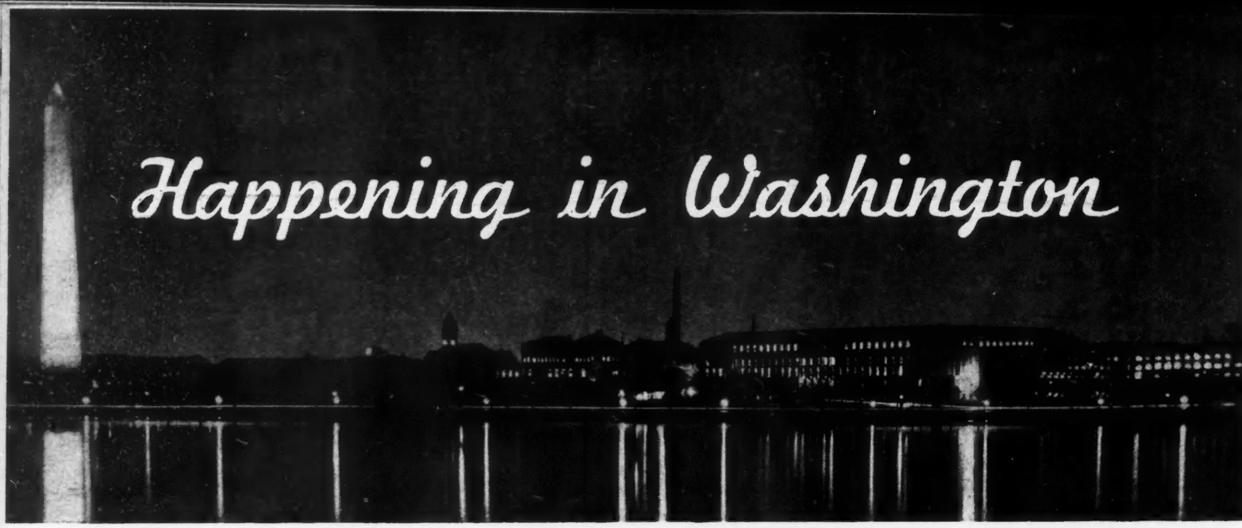
Carrying through on this typical example, if the formula is applied that the normal Federal tax be raised to 30%, from the present rate of 24%, and that the excess profits tax exemption be stiffened through the dropping of the earnings option to 75% of the 1936-39 earnings, compared with the present 95% (while the exemption under the invested capital option run down to 5% instead of the current 8%), the company's 1940 net income per share would have been approximately $10, rather than the actual $14.04 reported. The question now is: Will the company's likely larger sales this year be entirely taken or more than taken by larger costs? All things considered, our answer is that we doubt if the company can show as much net income this year as it did in 1940.

The majority of companies with large defense orders, however, are likely, in our estimation, to top their 1940 net income this year, but there will likewise be some which will not do so well. To use another example—Curtiss-Wright—which has the second largest aggregate of defense business on hand, the huge volume of orders and plant expansions carried out last year seem likely to be more than enough to counterbalance the forces of profit margin shrinkage. The company and its subsidiary will be one of those hard hit by relaying British business through our Government in consequence of the Lend-Lease act, but as (*Please turn to page 53*)

Defense Spending Program

(Approximate)

Appropriations and Contract Authorizations:	
War and Navy	$19,000,000,000
Other Defense Agencies	1,000,000,000
RFC and Export-Import Bank Loans	2,000,000,000
Estimates Now Before Congress for 1942 Fiscal Year:	
War and Navy	10,000,000,000
Other Defense Agencies	1,000,000,000
Lease-Lend Act	7,000,000,000
Supplemental War and Navy Estimates	750,000,000
TOTAL PROJECTED EXPENDITURES	$40,750,000,000



Charles Phelps Cushing

The Strike Boomerang

BY E. K. T.

OFFICIAL Washington is playing a waiting game with the strike situation. President Roosevelt is waiting for the situation to get better through voluntary action and the operation of the National Defense Mediation Board, while Congress is waiting for the situation to get worse to justify drastic legislation.

Critics call it a confused state of official opinion and lack of positive leadership, but actually a very ticklish political game is being played. The administration is really worried about delays to the defense program caused by work stoppages—much more worried than most officials admit publicly. But it believes that anti-union employers and reactionaries in Congress are taking advantage of the rising public resentment against labor to block legitimate union demands and to advocate severely restrictive legislation. The administration does not want to play into the hands of these groups and there also are sound legal, social and economic arguments against much of the proposed anti-strike legislation.

So the President and his aides and advisors are saying little, but are hoping that the threat of drastic action by Congress will scare both employers and unions into adopting a more co-operative attitude. If this political strategy fails to work, then Congress undoubtedly will take the bit in its teeth and put through some rather restrictive legislation, and the President's record with labor will be unblemished. When Congress quit for a spring vacation it was definitely in a mood to crack down, and there are no indications that its temper will be any different when it really gets down to work again unless strikes in defense industries drop off suddenly.

Public opinion polls and letters to Congressmen are running heavily against labor, blaming it for delays in defense production. Administration spokesmen insist that actions by employers are also delaying defense, and there undoubtedly is truth in this but the public seems ready to take out its ire on labor unions. Pro-labor men in the Government lay the blame on misguided leadership and stupid public relations of many unions, and are trying desperately to bring about corrective action voluntarily.

The National Defense Mediation Board has had a remarkable record of settling strikes during its short life and if it can keep up the good work all will be well. But many feel it is only beginner's luck. In some cases the men have been induced to go back to work pending further negotiations, so the issues are not really settled and the procedure is not far from compulsory arbitration. The Board is handicapped in many ways. It cannot act until the Labor Department admits it is unable to settle a strike. It has no power beyond that of its prestige and the personalities of its members. It has no advance set of principles as had the World War labor board. About all it can do is to ask the parties to avoid strikes by using other means of settling the argument. This may be enough.

If not, something more drastic is certain to be imposed. Bills pending in Congress include many which are palpably unconstitutional and impractical, though they show the temper of the legislators. Some would make strikes illegal. Some states have tried this and discovered that there were strikes just the same and enforcement was impossible. Union men point out that forced labor is unconstitutional and that British experience shows such legislation to be unworkable. Other bills would widen the Government's powers to confiscate

a plant by permitting such action in case of a strike.

Some labor men have been anxious for the Government to take over a few factories where defense orders have not been filled on schedule because of labor troubles, hoping that this would force other obstinate employers to accede to union demands. But more far-seeing labor leaders want no such action because then the Government would fix wages and working conditions and a strike in a Government plant would be mutiny. Or if a few test cases indicated that confiscation operated to the advantage of labor there would be dozens of strikes for the sole purpose of forcing confiscation. Not many people in Washington really want the confiscation power used.

Suggestions that a "cooling-off" period be enforced before a walk-out are popular, but most of the pending bills on this subject do not provide any machinery for settling grievances during this period. Union leaders say the greatest causes of strikes is the inability of labor to get to management and talk things over in good faith, and that if machinery to accomplish this were provided the unions would voluntarily set "cooling-off" periods.

If it comes to a show-down in Congress, the more drastic legislation probably will not get far, but any compromise will not be very pleasing to labor—nor to employers who refuse to deal with unions. Discussion of a workable plan revolves around such provisions as; no strikes except on a majority vote in a secret, supervised election; no strike until every effort has been made, and publicly recorded, to settle the trouble by bargaining, mediation or conciliation, *(Please turn to page 54)*

CAPITOL BRIEFS

Selling defense to the country is the Administration's biggest job right now. Officials complain the public doesn't realize the size of the defense job, the gravity of the situation. Public must be shown that there can be no business as usual, that everyone must sacrifice to speed the defense program or else the nation is sunk. Roosevelt's two recent broadcasts have stressed this, but the message hasn't soaked in much, and more strong words will be heard shortly. Full realization of the situation by industry and labor, it is felt, would eliminate many causes of delay, including strikes and what causes strikes.

War or war-like action may be required to wake up the nation, in the opinion of some in Washington who think we can't keep out of the war long anyway so we might as well do something drastic or let something serious happen now instead of later. This might take the form of severance of diplomatic relations with Germany and Italy, or use of the Navy for convoying, or letting a few U. S. ships go into the war zone and get sunk.

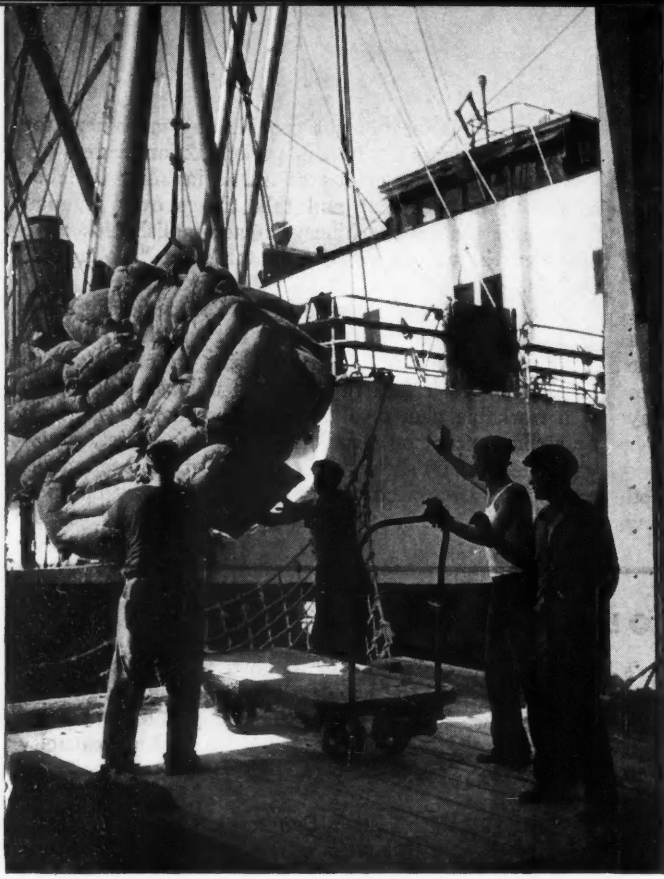
Wide World

Labor presents its most forceful argument.

Price control is practically inevitable, but will be postponed as long as possible. Legislation is being drafted in readiness, though some think it could be accomplished by executive order. There have been several price scares and unwarranted increases, and voluntary methods are in danger of breaking down. New plan will control margins of dealers and will not be confined to defense matertals. Officials now realize that their threatening methods have unexpected results; e.g., lumber prices were forced so low that many mills shut down and now means must be found to restore capacity output.

Defense investigations in Congress are proceeding along various lines without co-ordination or definite goals. They are largely fishing expeditions and illustrate Congressional bewilderment at what is going on and why. The probes probably will serve a useful purpose in preventing zealous but misguided actions from flying off at a tangent from the line of defense, and in checking objectionable trends and practices before they cause trouble.

Spreading orders in the defense program is the biggest headache of OPM right now. Politicians seeking local gravy can usually be disposed of, but they are a nuisance, but more serious is the difficulty in getting primary contractors to farm out pieces. Government doesn't want to let separate contracts for various parts of an airplane, etc., nor does it want responsibility of telling a contractor what to farm out or what subcontractors to employ. Yet the program requires full use of every available factory, and contractors may have to be virtually clubbed into finding ways of spreading their orders. When this is done it will end much of the political squawking about certain localities not getting enough defense business. *(Please turn to page 54)*



Charles Phelps Cushing

The Squeeze In Import Commodities

Higher Freight Rates and Insurance Chief Cause of Rising Prices

BY RICHARD J. MAYER

JOHN JONES, average American, is becoming import commodity-conscious of late. For years back, he has been reading about our own "problem of plenty" staples—wheat and cotton. Plowing under, benefit payments for curtailment, diversifying crops and the like have failed to slenderize these commodity surpluses. They have left the impression in many quarters that America could, if necessary, become agriculturally self-sufficient in all lines. It took a broadening of World War II to awaken John Jones rudely from his hitherto complacent lethargy into the realization that this country is a long haul from many of its most essential raw commodities; that unless the ocean freight situation gets better quickly before it gets worse (incidentally, highly unlikely), the inventory stock piles of staples here are going to have to serve double duty "for the duration," particularly with generally increased consumptive needs.

Recent price advances in the import commodity group have focused attention thereon. They have also brought out some speculation as to possible Government price curbs in the near future. For the time being, price controls in imported commodities will probably be relegated to the background. Why? In many instances, these staples started their upturns from record low values, below even the hard-to-calculate native production costs. Pepper from the Netherlands East Indies and cocoa from Africa's Gold Coast are two commodities that fall under this category. Secondly, ocean freights and war risk insurance on shipments doubled, tripled and even quadrupled in some instances since the outbreak of the war. In the case of cocoa, no less than 60% of the 2½-cent per pound increase from the low-point can be accounted for by increased freight rates and war risk premiums.

Furthermore, there has been little to indicate consumer overbuying in imported commodities. Indeed, considering increased consumptive requirements in this country, inventories in many instances are far from reassuring. If, as seems most likely to shipping authorities, the war toll on vessels the next two years continues at its present pace (meaning the combatants sink 'em faster than Uncle Sam plus the air-strafed shipyards of England can turn 'em out) present freight rates may, in retrospect, appear penny ante. To a lesser degree perhaps, the same may apply to war risk premiums on ocean freights. Placing a price ceiling on commodities, landed here, upon which we are wholly or partially dependent, would hardly do the trick. In that case, freight increases would simply pare the price to the native producer, possibly to a point where his own return was so unremunerative that he would prefer to hold at primary points, rather than sell. Low prices in the past have provoked such holding movements in a number of commodities.

A fourth reason why price controls on imported staples are unlikely at the moment is that the speculative inflation phase seems quite conspicuous by its absence. On March 1st, the average value of a *futures* contract of a dozen different commodities (imported and domestic) was $3,911, or 99.36% of the value of the *spot* contract of the same staples. On April 5th, the value of the futures contract of these dozen commodities was $4,384. However, it was only 97.84% of the value of the spots on that date. It is traditional

that futures, representing the speculator's appraisal of what is ahead, should and usually do sell at premiums over spots. The fact that the reverse is the case today illustrates the preponderance of actual consumers, rather than speculators, that are generating the price increases now.

Despite this buying, consumer holdings are not burdensome because of increased domestic requirements. For example, our tire manufacturers at the end of last October held an inventory in rubber equivalent to about four months' needs. Since that time, rubber arrivals here were at a record pace—topped by 123,000-ton January imports. Yet at the end of this past February, manufacturers' inventories were down to 3½ months' requirements. Actually, the tire makers had about the same or slightly more rubber on hand at end-February as end-October, but increasing consumption will necessitate a broader monthly tonnage allowance.

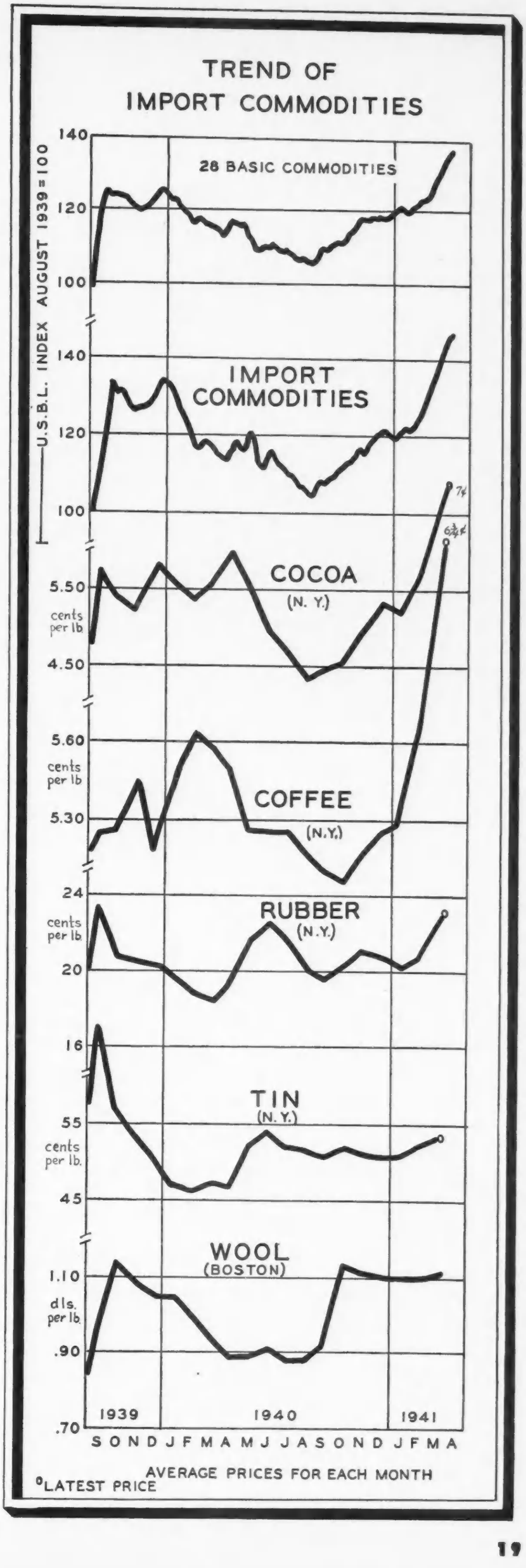
Uncle Sam awoke to the realization of our import plight before John Jones did. Creation of the Rubber Reserve Co. (which has imported some 150,000 tons, 2½ months' need for the industry at present speed, out of a goal of 324,000) and of the Metal Reserve Co. (which has bought 55,000 tons of tin out of a 75,000-ton total sought, as well as 200,000-odd tons of copper from South America) proves this awareness. However, in the case of both rubber and tin, the Government set forth maximum prices that it would pay and, since values have soared above such levels, it seems that such limits must be raised unless there is a general reaction in freights and prices or else a complete cessation of new acquisitions. Uncle Sam's attitude on this score should be closely watched by consumers of such materials, since it may prove a definite clue to the attitude on price controls.

Materials Needed for Defense

One of the first chores of the National Defense Board was the compilation of a list of raw materials necessary for national defense. These were bracketed in three classes:

First, strategic materials (defined by the Army and Navy Munitions Board as follows): "Those essential to national defense, for the supply of which in war dependence must be placed in whole or in substantial part on sources outside the continental limits of the United States; and for which strict conservation and distribution control measures will be necessary." Rubber, silk and tin were three of the better known staples on that list in which futures are traded.

Second, critical materials (defined by the Army and Navy Munitions Board as follows): "Those essential to national defense, the procurement problems of which in war would be less than those of strategic materials, either because they have a lesser degree of essentiality or are obtainable in more adequate quantities from domestic sources; and for which some degree of conservation and distribution control will be necessary." Hides and wool are two items on this list. At last count, the critical priorities list issued by the Office of Production Management contained 219 commodities, of which at least half, however, are essentially finished military equipment for which civilian (*Please turn to page* 49)



The industrial might of the United States and Britain will eventually defeat the Axis—if our aid can be mobilized and got to the British in time.

The Economic Balance of Power

BY V. L. HOROTH

THE twelve months from the invasion of Norway to the burning of Belgrade brought about a fundamental change in the conflict in Europe. From a contest for the balance of power on the Continent, the war has developed into a struggle for authority to rearrange the world according to either totalitarian or democratic principles. With all but seven Continental countries forced either by conquest or intimidation to submit to German domination, and with the active support of the Japanese Empire in the East, the odds favored the ultimate sway of the "new order" during most of the past fateful year.

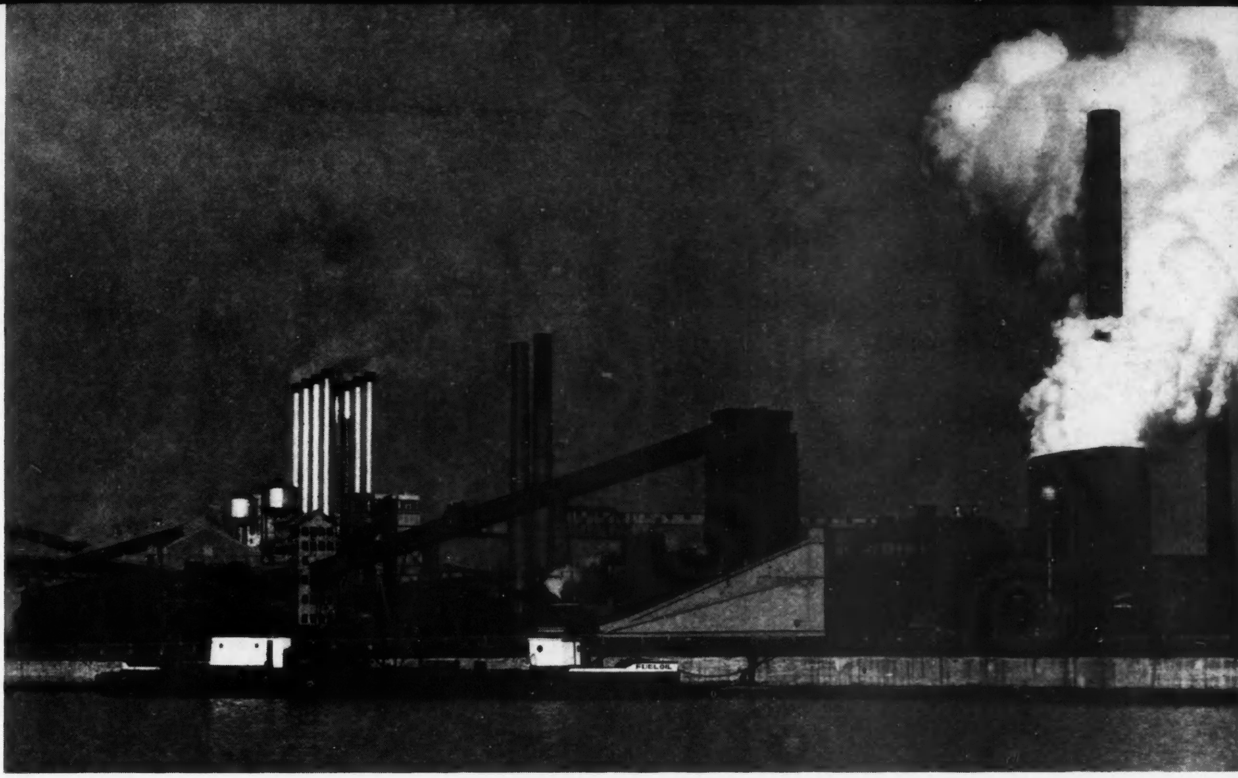
At first the only opposition to the spread of the totalitarian violence came from the nations of the British Commonwealth, around which were gathered the Belgian and Dutch Colonial Empires and some fragments of the French Colonial Empire. But as the designs of the Axis Powers came to be better understood and as the necessity of common defense was realized, neutral countries gradually began to throw their lot in with the nations of the British Empire. Greece and Yugoslavia have become active belligerents. Turkey, Iraq and Egypt have proffered economic and political aid. Above all, the United States has thrown its tremendous economic potential on the scales by undertaking to give all help "short of war." Most of the Latin American Republics are now ranging themselves behind the United States. Thus, there is gradually emerging a vast coalition of the countries supporting or sympathetic to existing economic organization of the world and the democratic way of life, even though many of them are not themselves parliamentary democracies.

The purpose of this article is to appraise in a general way the economic potentials of this great international coalition in the making, and to compare its economic strength with that of the German organized Continent of Europe. Which is economically stronger: the non-European world (with the exception of Soviet Russia, Siam and the Japanese Empire) led by Great Britain and the United States with vast but scattered resources, or the compact, highly industrialized war economy of the Continent of Europe, striving hard to manage on its limited raw material and foodstuff resources?

The economic potential of a nation is a combination of many factors economic, and also geographical and social. Only a few of them can be measured, such as the national output of raw materials, foodstuffs and industrial goods, the most important of which the reader will find included in the accompanying tabulation. Such important factors, however, as the productivity of the labor force or the adaptability of the industrial structure of a country to war purposes can be only surmised, since they depend upon patriotism, social structure and, in general, upon the willingness of a nation "to work more and to consume less" in time of war. The total national income and the portion diverted to war offers perhaps the best basis for a comparison of the productivity of the labor force and its discipline. The output of steel and other producers' goods may serve as the best measures of a country's ability to produce war materials. The reader will find these imperfect yardsticks, taken from various estimates, also included in the table, but since most of them are based on peace years, they should be regarded as relative rather than actual measurement of the strength of what we shall call "the democratic world"—the Allies, the United States and Latin America—and "the totalitarian world"—the Axis Powers and the Japanese Empire with Siam and Indo-China.

Beginning with a comparison of the output of raw materials and basic foodstuffs, the wide margin of the resources of the democratic world over the totalitarian is clearly obvious. Moreover, margin is likely to increase as the resources of the United States become more fully utilized. In the case of copper, for example, the democratic world controlled some 85 per cent of the world output in 1940. In 1941 the United States and the British Empire (with Belgian Congo) will together probably mine nearly 2,000,000 short tons of this basic metal—in addition to which some 500,000 tons will come out of South America—making a total production about as much per month as the entire totalitarian world has available per year.

The leadership of the democratic world is likewise decisive in crude petroleum, with 61 per cent of the world output in 1939 being contributed by the United States alone. Crude rubber was all controlled in 1940



Gendreau Photo

by the Dutch and British Colonial Empires, except for the 8 per cent produced in Siam and Indo-China. The supremacy of the democratic world extends to a number of other important non-ferrous metals, ferro-alloys and industrial raw materials not shown in the table. They controlled in the 1937-39 period about 96 per cent of the world output of tin, 84 per cent of the tungsten, 78 per cent of the chrome ore, 97 per cent of the nickel, 96 per cent of the molybdenum, 76 per cent of the lead, and practically all the world output of asbestos, vanadium and antimony.

Almost 80 per cent of world cotton in 1939 and nearly 75 per cent of the clothing wool were produced by the democratic bloc, which also controls practically the entire jute and sisal output, and such tropical staples as coffee and cocoa.

There are, of course, important strategic materials in which the margin of the democratic world is not preponderant. Their weakness in zinc is more serious than the figures of the mine output indicate, due to lack of sufficient smelting capacity. American zinc smelting capacity, however, is to be expanded by about 25 per cent, to over 900,000 tons, before the end of this year. In the case of aluminum, the output of the totalitarian world in 1939 was actually larger than that of the democratic bloc, but this deficiency is being rapidly relieved. The aluminum-making capacity of American plants, which was some 328,000,000 pounds in 1939, is reported to have approached about 500,000,000 early in 1941, while by the middle of 1942 this capacity is expected to reach nearly 1,000,000,000 pounds. Magnesium is another strategic material in which totalitarian countries still have the lead.

In the output of coal and lignite, the democratic countries exceeded in 1939 the totalitarian countries by a margin of about eight to five. One must take into consideration, however, the fact that coal in Germany is not only a source of heat and power, but also an important raw material for gasoline, artificial rubber (buna) and numerous by-products which are obtained by the democracies in a more direct way. Germany, in fact, has been reported to be suffering from a chronic shortage of coal almost since the World War No. 2 began.

In steel capacity—which has a most direct bearing upon modern warfare—the democratic bloc led the totalitarian countries in 1940, as shown in our table, by a margin of nearly two to one. Thus, despite the collapse of France and Belgium, the democracies still retain a lead over the totalitarian powers almost as great as the Allies during World War No. 1 had over the Central Powers. With the American capacity at over 40,000,000 tons in 1915, the Allies, including Italy and Russia and Japan, had at their disposal about 56,000,000 tons, whereas the Central Powers, including the occupied Poland and Belgium, controlled a steel-making capacity of but 26,000,000 tons.

Since last summer some disorganization of iron ore supply has handicapped the British steel industry—probably more than the actual bombings—and, as a result, steel scrap from the United States and pig iron from India had to be imported in large quantities. United States steel capacity, however, is likely to reach almost 90,000,000 tons before the end of this year, and is so enormous that any British shortage can be readily made up provided sufficient shipping space is available.

German-controlled steel capacity, as a result of conquests, is now practically twice as large as at the outbreak of war. Moreover, capture of the Lorraine fields has removed all danger of any iron ore shortage, although the alloy steel situation is reported none too satisfactory.

To what extent the steel capacity in the occupied countries has been brought back into actual production is not known, but judging by Belgium, where output of pig iron last October was less than half that of October, 1939, much of it probably remains unused.

Other measurements of the national capacity to make war equipment, such as the index of producers' goods output, and automobile production (extent of motorization) show even greater margins in favor of the democratic bloc than does steel capacity. The number of metal workers in the United States (nearly 10,000,000 in metal, machine and automobile trades in 1937) and in Great Britain and the Dominions (3,500,000 in 1937) was also more than twice as large as that of Greater Germany (4,750,000), France and Belgium (2,000,000) combined.

As to the productivity of labor, a decline took place in all European countries during World War No. 1. In certain German industries, due to fatigue, insufficient food and raw material shortages, labor efficiency was said to have declined as much as 30 per cent between 1914 and 1918. During World War No. 2 definite decreases has already been reported from Italy and particularly from Japan. Some fatiguing of workers and shortening of working hours has been known to take place also in Germany, where labor productivity probably reached the peak at the outset of the war. The trend of productivity in the remaining German Europe can be only surmised, but sabotage, passive resistance and the rising unemployment in the Low Countries, Norway and Bohemia indicate that a full utilization of industrial capacity is far from being fulfilled.

It is quite obvious from the above that the non-European world has probably a two-to-one margin over German Europe in raw materials and foodstuffs, and also in industrial plant. Moreover, the efficiency of this plant is rising in the United States, whereas on the Continent it has reached the peak. Dr. G. Colm of the U. S. Bureau of Budget asserts that in view of higher productivity of labor in highly mechanized industries in this country as compared with Germany, it will be possible to accomplish in about three years the rearmament program that took the Nazis about 6½ years.

Why then has the totalitarian world still an advantage over the democratic world? The answer lies, in the first place, in the fact that the Axis Powers, including Japan, have definitely planned for war, and that a larger share of their national output is diverted into war purposes. Compare, for example, Germany where some 70 per cent of the German national income is diverted into Government uses, with 50 per cent in Great Britain and less than 20 per cent in the United States. Secondly, Continental Europe has remained to a great extent "the workshop of the world," particularly where special machinery and war equipment is concerned.

The greatest weakness of the democratic world, however, lies in the fact that its resources are scattered, and that foodstuffs and raw materials have to be brought to its industrial centers over long and exposed sea routes. Ships are needed also for the maintenance of the blockade and for armies. It is no wonder, then, that shipping is becoming the crucial link, and that the British have ceased to emphasize airplanes in the face of the growing urgency for ships.

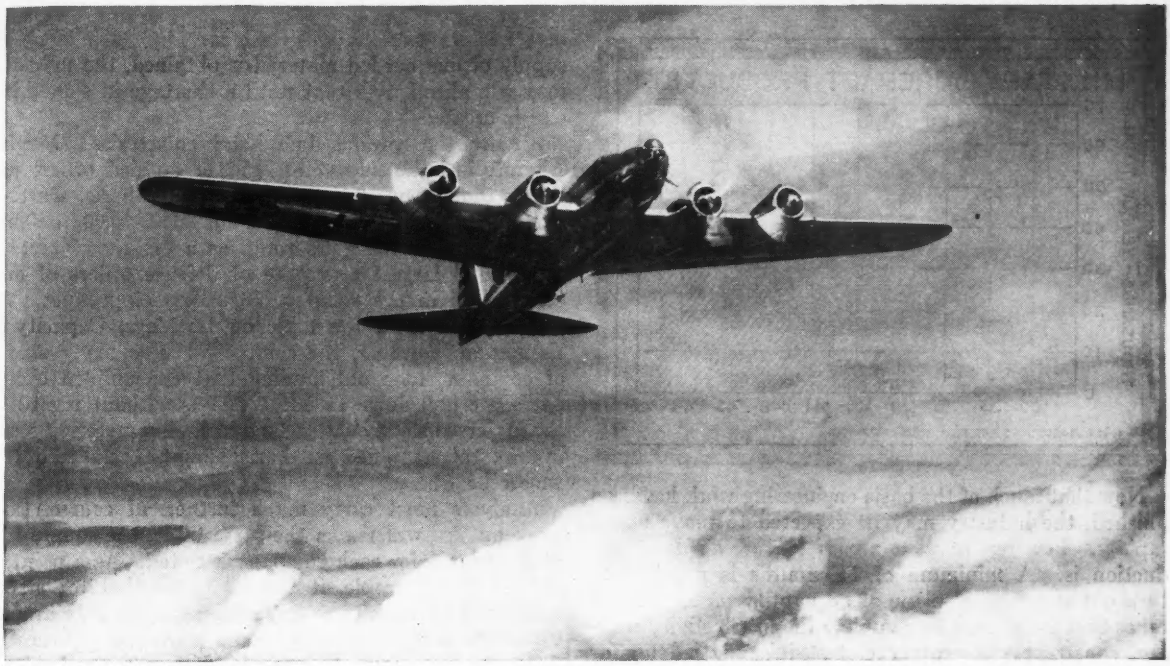
But the Germans, too, have their transportation problem. To make the most of their limited economic resources they must keep their land transportation running efficiently. The campaign (*Please turn to page* 54)

Estimates of Economic Potentials of the Democratic and Totalitarian Worlds

	Steel Output	General Industrial Capacity	Producers' Goods Capacity	Railroad Freight	Coal & Lignite	Copper Output	Zinc Output	Aluminum Output	Crude Petroleum	Crude Rubber	Cotton Output	Wheat & Rye
	1939-40 (000,000 l. t.)	1937 (% of World)	1929 (% of World)	1937 (000,000 tonkilom.)	1937 (000,000 tons)	1940 (000 s. t.)	1939-40 (000 s. t.)	1939 (000,000 lbs.)	1939 (000,000 bbls.)	1940 (000 m. t.)	1937 (000,000 bales)	1938 (000,000 bu.)
United Kingdom	13,500	10	11	28,000	244	...	56	57	...	...	...	73
Other British Empire	4,300	2	3	97,000	72	665	270	165	55	701	5.5	949
Belgium and Dutch Colonies	......	...	...	1,000	2	150	...	...	62	548	.2	...
Greece and Yugoslavia	100	...	...	3,000	5	46	5	4	...	...	.1	156
The Allies	17,900	12	14	129,000	323	861	331	226	117	1,249	5.8	1,178
United States and Possessions	60,200	35	59	526,000	451	907	643	328	1,264	...	18.9	986
Egypt, Turkey and Iraq	100	...	...	19,000	3	10	...	...	34	...	2.6	202
Latin America	200	1	...	21,000	4	470	51	...	305	20	3.1	400
Total	78,400	48	73	695,000	781	2,248	1,025	554	1,720	1,269	30.4	2,766
Percent of world	53	48	73	56	56	85	55	39	83	91	79	
Greater Germany*	25,250	13	14	83,000	273	35	234	410	5	...	...	722
Italy	2,350	3	1	11,000	2	...	37	62	1	...	...	302
France	8,400	5	3	34,000	46	...	66	110	1	...	...	405
Other German Europe**	7,400	3	1	42,000	87	30	408	73	51	...	.2	882
German Economic Empire	43,400	24	19	170,000	408	65	745	655	58	...	.2	2,311
Spain	500	...	...	....	7	38	13	2	...	...	...	96
Japanese Empire	6,300	4	1	17,000	63	80	61	50	7	...	.2	55
Indo-China, Siam	......	...	...	1,000	3	...	...	...	...	108	...	...
Total	50,200	28	20	188,000	481	183	819	707	65	108	.4	2,462
Percent of world	34	28	20	15	35	7	44	49	3	8	1	
World	147,000	100	100	1,237,000	1,385	2,650	1,850	1,433	2,077	1,393	38.7	

Sources: League of Nations Yearbooks, I. G. Farbenindustrie Bulletins, Automobile Yearbook, Agricultural Yearbook, Mineral Yearbook, Engineering and Mining Journal, International Rubber Regulation Committee, etc.

* Including Austria and Czecho-Slovakia. ** Belgium, Netherlands, Norway, Denmark, Luxemburg, Poland, Hungary, Roumania, Bulgaria.



Official Photo, U. S. Army Air Corps

1941 AIRCRAFT ROUND-UP

Part I—Backlogs, Capacities, Expansion Plans

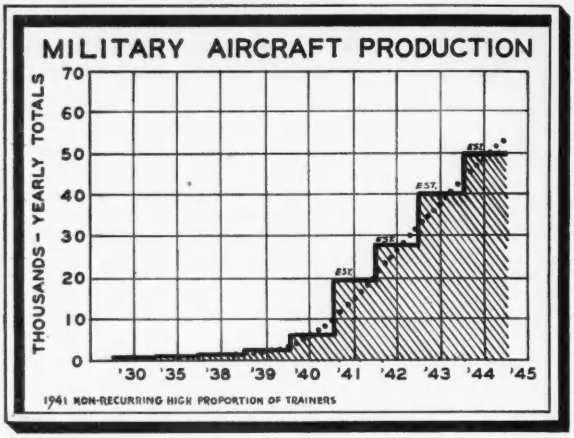
BY WARD GATES

ONE of the top beneficiaries of our armament program, the aircraft industry, labors under a mountain of unfilled orders to turn out airplanes with all speed, both for Britain and this country. In 1938, the industry's output amounted to about one-eighth of a billion dollars in planes, engines and propellers. In 1939, it doubled, and in 1940 output jumped to over half a billion dollars. Business on hand approximates $4,000,000,000 and orders still are piling up. The program for the next year and a half aims at $3,000,000,000 worth of production.

Last year 5,800 military planes were produced, but the present program calls for about 37,000 military planes, embracing everything from trainers to huge, four-engine bombers. Of these, about 21,000 machines are for the United States and 16,000 for the British. Deliveries are expected to be completed about the middle of 1942. More planes than this, of course, are wanted. The British indicate they may need 12,000 more bombers, and our own forces very likely will want at least this many more. As the war continues, the program must expand rapidly.

Actual carrying through of this program will be little short of a miracle of machines and men. Preparation for the program must constantly go on, with the least possible disturbance to current production. At the start of the war in 1939, the industry's productive floor space totaled 10,000,000 square feet. It has risen about 160% since then—to 26,000,000 square feet. In addition, there are 20,000,000 additional square feet under construction and scheduled to be in operation by late summer.

Labor to run the plants has been a difficult problem; building airplanes obviously requires a certain skill and the aircraft companies themselves have had to train their own shop employees, though more lately educational institutions have been aiding. Housing the personnel, too, has presented exceptional difficulties. To show how successful the industry has been in this respect, however, it had about 36,000 shop employees when the war started in 1939; now 185,000 skilled workers run the plants. By late summer the aggregate is expected to be about 382,000.



Now that much of the basic engineering work has been finished, the industry may be expected to move ahead rapidly. Few realize what a complex job airplane production is. A minimum of 14 months is required to turn out the original plane of a quantity order, since it takes that much time to complete the involved engineering, construct the prototype, test it, and tool up for production. And then change orders present constant problems, reflecting the rapid obsolescence of fighting planes and the persistent scramble among nations to produce superior types. Even in the slow-moving World War, about 60% of the planes at the front were regularly obsolete, in an inferiority sense, because of the fast and continuing development of better planes.

In our own country, new discoveries among the many producers of aircraft are resulting in frequent improvements; in a way, there is a certain competition here to produce better planes, though, of course, new inventions are made available for the common national cause of defense and aid to Britain. The various companies in the field and the types of planes they produce are detailed in a table of this article, with illustrations throughout showing some of the leading military planes being flown today.

Keen Competition Produces Finer Product

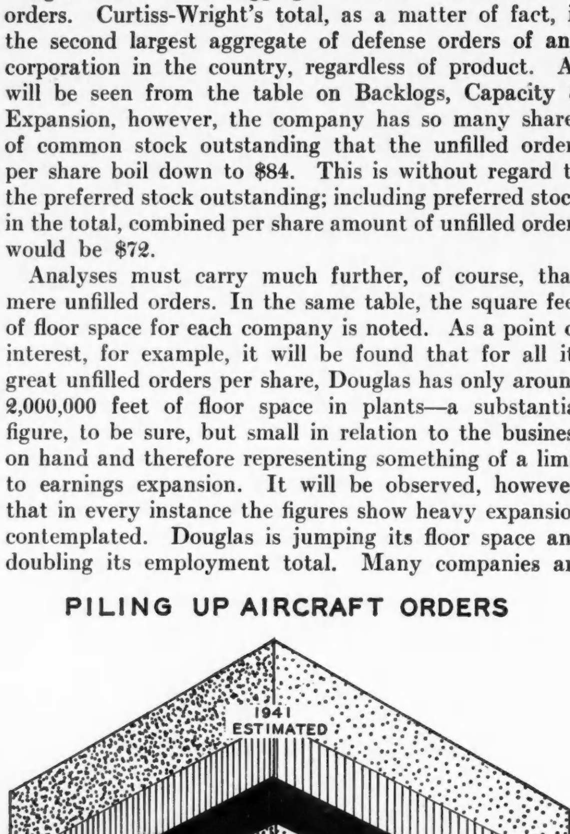
As an example of domestic competition, there has been during the past two years much discussion of the relative merits of air-cooled (United Aircraft) and liquid-cooled (Allison-General Motors) engines for high-speed pursuit planes. United Aircraft's claim is that for airplanes of equal size and military effectiveness, the plane with the air-cooled engine will substantially equal the high speed of that with the liquid-cooled engine and will surpass it in take-off and climbing ability. This, of course, is interesting, but the only point we wish to bring out is that in spite of our great and potential gigantic production, competition and refinements within the industry itself will bring us some of the world's finest planes, if not actually the best.

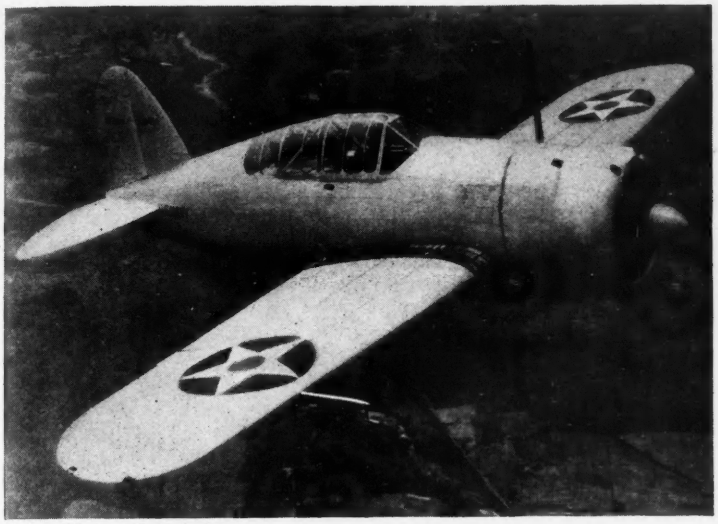
Bottlenecks in production have developed and are bound to continue, even though green lights are flashing for the industry at every crossing, and it has first ranking as to priorities. Somewhere along the line shortages among the thousands of different materials and parts that go into a plane will be incurred. As a plentiful supply of one needed material is obtained, the industry may run ahead with that until a shortage in something else is created.

Among the various individual companies, Douglas Aircraft has the largest amount of unfilled orders per share, though on an actual order total basis, Curtiss-Wright leads with an aggregate of $622,000,000 defense orders. Curtiss-Wright's total, as a matter of fact, is the second largest aggregate of defense orders of any corporation in the country, regardless of product. As will be seen from the table on Backlogs, Capacity & Expansion, however, the company has so many shares of common stock outstanding that the unfilled orders per share boil down to $84. This is without regard to the preferred stock outstanding; including preferred stock in the total, combined per share amount of unfilled orders would be $72.

Analyses must carry much further, of course, than mere unfilled orders. In the same table, the square feet of floor space for each company is noted. As a point of interest, for example, it will be found that for all its great unfilled orders per share, Douglas has only around 2,000,000 feet of floor space in plants—a substantial figure, to be sure, but small in relation to the business on hand and therefore representing something of a limit to earnings expansion. It will be observed, however, that in every instance the figures show heavy expansion contemplated. Douglas is jumping its floor space and doubling its employment total. Many companies are

PILING UP AIRCRAFT ORDERS





Official Photograph, U. S. Navy

Brewster Fighter

in 100% expansion programs or greater, and some of these expansion programs themselves will not be completed before the end of this year. Analyzing unfilled orders per share relative to contemplated square feet of floor space, comparatively the most attractive situations purely on these bases are Bell, Consolidated, Douglas and Martin. These conclusions, however, must be weighed in the light of conclusions made in Part II of this article, which deals with shipments, profits and taxes.

Our tables show that automotive companies already are participating heavily in the aircraft program. Allison Engineering (division of General Motors), with $307,000,000; Buick (also General Motors), with $91,000,000; Ford Motor Co., with $122,000,000; Packard, with $217,000,000, and Studebaker, with $33,000,000, are the principal holders of large aircraft contracts among the automotive companies. Before long Packard will be delivering its first shipment of Rolls-Royce engines, Ford and Buick will be turning out Pratt & Whitney engines and Studebaker the Wright Cyclones.

The automotive companies, however, have found it necessary to build new plants for aircraft work, reflecting the unsuitability of actual automotive plants. One automobile company, for example, found that only three per cent of the tools in its factory can be used for the work; even some of these were torn up and shipped back to the manufacturers for redesign. This same company found that none of its 10,000 employees was capable of building airplane engines without new training.

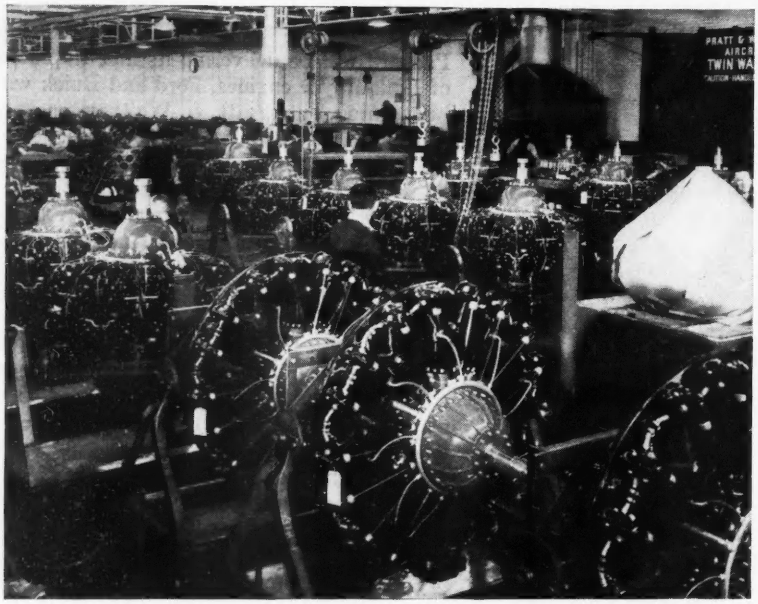
Outstanding among plans for converting a good part of automotive capacity to airplane production is the Knudsen Plan. This calls for gearing all available facilities to provide maximum aid to the aircraft industry. Its aim is the establishment of large assembly plants (meanwhile, the Government is building four of them), operated by aircraft producers who would assemble into two-engine and four-engine bombers the parts and sub-assemblies built by the automotive industry and its subcontractors. Some authorities believe the motor car manufacturers may be able eventually to build 40% of the component parts that go into planes, but only after considerable preparatory work.

Such preliminary work goes on rapidly. Automotive engineers and key personnel are visiting and studying aircraft plants to learn the aircraft building art. And aircraft engineers and key personnel are visiting motor car plants to determine by what methods the automobile industry may render most effective assistance to the aircraft production program. Optimism over what

AIRCRAFT—Backlogs, Capacity and Expansion Contemplated

Company	Approximate Preferred Shares Outstanding	Approximate Common Shares Outstanding	Approximate Current Unfilled Orders	Unfilled Orders Per Common Share	Square Feet Floor Space as of Jan. 1, 1941	Square Feet Floor Space Contemplated (Approximate)	Approximate Total Employed Jan. 1, 1941	Approximate Employment Contemplated
Allison Engineering	Controlled by	General Motors	$307,000,000	...	750,000	1,150,000	10,000	15,000
Beech Aircraft	....	400,000	36,000,000	$90	275,000	575,000	1,900	5,000
Bell Aircraft	....	250,000	62,000,000	248	435,000	800,000	5,000	12,000
Boeing Airplane	....	1,082,000	200,000,000	184	1,500,000	3,000,000	10,300	25,000
Brewster Aeronautical	....	519,000	103,000,000	198	800,000	1,200,000	7,000	14,000
Consolidated Aircraft	23,820	579,000	325,000,000	560	1,700,000	3,100,000	13,900	30,000
Curtiss-Wright Corp	1,159,000	7,432,000	622,000,000	84	4,180,000	8,097,000	30,000	90,000
Douglas Aircraft	....	600,000	350,000,000	583	1,875,000	3,200,000	20,000	40,000
Fairchild Aviation	....	337,000	22,000,000	65	113,000	225,000	1,700	3,000
Ford Motor Co	Private Company		122,000,000	...	....	600,000	......	10,000
Grumman Aircraft	....	508,000	60,000,000	118	400,000	1,000,000	1,800	6,000
Lockheed Aircraft	....	1,000,000	270,000,000	270	1,400,000	2,800,000	20,400	48,000
Martin (G. L.) Co	....	1,097,000	350,000,000	320	1,663,000	3,800,000	16,800	42,000
North American Aviation	....	3,435,000	210,000,000	61	1,000,000	2,000,000	8,200	25,000
Packard Motor	....	15,000,000	217,000,000	15	....	1,300,000	......	14,000
Republic Aviation	200,000	982,000	63,000,000	64	230,000	1,200,000	2,500	10,000
Ryan Aeronautical	....	375,000	12,000,000	32	160,000	257,000	1,600	2,500
United Aircraft	....	2,657,000	425,000,000	160	1,800,000	2,600,000	20,000	30,000
*Vultee Aircraft	....	750,000	93,000,000	124	1,000,000	1,700,000	6,500	18,000

* Affiliated with Aviation Corp.



Pratt & Whitney Photo

the automotive industry can do is found in the fact that aggregate assignments for airplanes or parts to the automotive and auto parts industries now exceeds $1,000,000,000. Automotive accessory companies are much less likely to be disrupted by the aircraft program than the automobile companies themselves; to many, in fact, it will mean the largest sales and earnings in their histories.

Part II—Sales, Taxes, Profits, Market Ratings

The above-described picture of a boom in operations of the aircraft industry is far less impressive in the profit end than in the sales division. True, the industry is perfectly situated as to priorities; in fact, it is for aviation and other armament industries that priorities have been instituted, and their application has the double-barreled favorable effect of making materials available and keeping prices of these materials relatively low. Nevertheless, there are a number of factors converging into a strong squeeze on profits.

For example, as deliveries to our Government advance in proportion to the total, the profit margin will decline, since the margin on foreign business is much larger than on domestic business. Margins on U.S. business range from 5% to 12% actually, whereas on export orders such margins run closer to 20%. The somewhat more profitable commercial work has been virtually cut off, too, since military planes have first call under existing priority agreement. Lend-lease aid to Britain involves clearing their orders through our Government—quite likely on the same comparatively narrow-profit margin basis as domestic business. The fact that final assemblies in a big part of plane output later this year will be in new plants being built with Government funds and operated on a fixed fee basis by leading aircraft companies likewise is an indicator of narrowing profit margin.

Labor problems are likely to be disturbing, but more from the standpoint of inadequate supply, rather than strikes and similar disturbances. Aircraft construction is so much in the public eye as part of the defense backbone that it is doubtful if a strike in the industry would be long permitted. In fact, union development itself has been very slow in the industry to date. Just this month, the UAW-CIO obtained the first check-off in the aviation industry, contracting with the Brewster Aeronautical Co. Wages, now rising, are headed for still higher levels.

In any event, somewhat higher material and labor costs may not be as heavily restrictive factors as in some other industries, in that the aviation industry generally sees to it that protective clauses are obtained with all contracts. The result is that advances in labor costs are added to price of the planes on delivery. One minor catch here, however, is that such clauses are based on labor law averages published by the Department of Labor, and not on the real wages paid at the plant. Possible material cost advances are covered, too, through virtually immediate protection on firm reception of the contract.

Aside from the possibility of the Government making a full emergency absorption of the entire industry (not imminent), taxes represent the most depressing factor in the aviation earnings outlook. Current talk runs to a Federal normal tax this year at a 30% rate, compared with the old 24% rate. Moreover, the excess profits tax exemption may be dropped in the average earnings option to 75% of the 1936-39 figures, compared with the present 95%, while the exemption under the invested capital option may run down to 5% instead of the current 8%. Taking the option most favorable to the particular company and refiguring the company's 1940 net income to show the effect of these new deductions, Bell Aircraft would have earned 67 cents a common share, rather than the $1.14 per share reported; Consolidated Aircraft $1.62, rather than the $2.30 reported; Curtiss-Wright $1.05 vs. $1.81 actual; Fairchild $1.35 vs. $1.92; Grumman $1.87 vs. $2.79; Lockheed $2.65 vs. $3.17; Martin $3.70 vs. $4.94; North American $1.55 vs. $2.06 and United Aircraft $3.75 vs. $4.95.

Excess Profits Tax Changes Help

Recently enacted amendments to the excess profits tax law have eased the strain on the aircraft companies to some extent, as may be gleaned from the following calculations. These show the estimated excess profits exemption (on the 1940 basis, not on prospective 1941 changes) under the 1940 law and on the new basis of recent amendments favoring growth companies through the potential obtainment of concessions from the Bureau of Internal Revenue for income abnormalities. On these grounds Consolidated Aircraft's latest exemption would run up to $2.40 a share, compared with the former basis of $1.25 a share; Curtiss-Wright would be 35 cents vs.

25 cents; Douglas $10.25 vs. $6.70; Fairchild $1.25 vs. 65 cents; Grumman $1.65 vs. 80 cents; Lockheed $2.50 vs. $1.50; Martin $3.50 vs. $2.25; North American Aviation $1.85 vs. 65 cents; United $3.40 vs. $1.75.

Percentage of net income to sales, as detailed in our tabulations, is surprisingly high in some instances, the highest being North American Aviation at about 19.5%—covering the 1940 ratio. Martin is next with its net income at 18% of sales. Douglas has a 17.8% ratio, but it is noteworthy that this net income is on a fiscal year basis (year ending November 30), and thus did not show the excess profits tax for 1940, which would of course have cut earnings materially. With respect to some of the high earners, such as Martin, Douglas and North American, there is unlikely to be a repetition of this exceptionally favorable ratio this year for the various reasons enumerated previously as narrowing the profit margin. Particularly prominent among these is the fact that British orders—representing far larger profit possibilities than domestic orders—will now, as a result of the Lease-Lend Act be re-routed through our Government, on the same restricting profit basis as business with our Army and Navy.

It will be noted that in our tables we assign both tax ratings and market ratings to the various aircraft companies. As to the basis for these ratings, our reasoning runs that the important thing for investors is not the total amount of taxes that a company may pay, but net earnings *after taxes.* One company, for example, may be liable to heavy excess profits taxes and still have net earnings substantially larger than its past average. Another may pay no excess profits tax and yet have earnings under past averages. On this logic, the tabulation includes a "Tax Rating" based on our judgment of each company's general earnings potentiality in relation to higher taxes. The chief considerations are volume outlook and operating flexibility and inflexibility. The numeral I is the most favorable rating, II a fair or medium rating and III the least favorable rating.

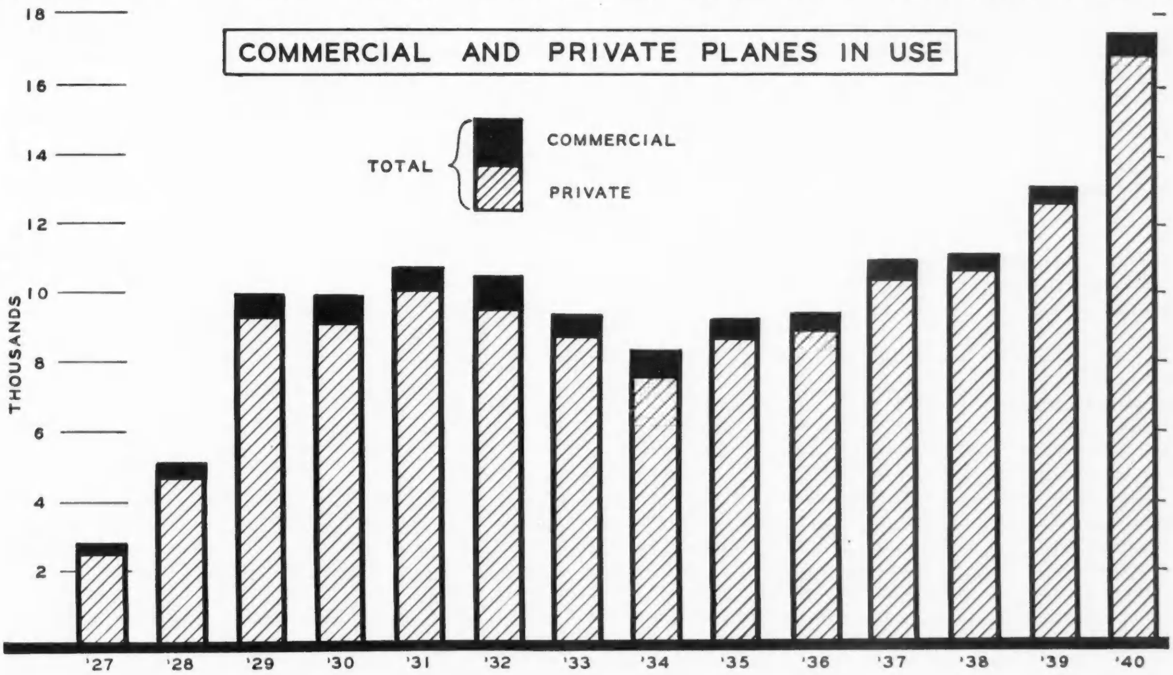
Similarly, the letters A, B, C, D and E indicate our judgment of the basic investment quality of each security, based on earnings and dividends record, financial strength, management, trade position, growth prospect, operating flexibility, etc. A stands for high grade; B good; C medium grade; D marginal; E low grade. The numerals 1, 2 and 3 indicate current earnings trend; 1—upward; 2—steady and 3—downward. The earnings trend is upward in the instance of every aircraft company.

Boiling down preceding data, including charts, tables, editorial comment and all other research we have conducted in connection with this survey of the aircraft industry, it is our belief that the outstanding holdings in relation to current price are Bell, Consolidated, Douglas and United Aircraft. These stocks may be considered reasonably attractive as a speculation on continuation of the war or of our armament program, *but we wish strongly to emphasize that any purchases should be coordinated with our general market advice as given in each issue by A. T. Miller.*

Part III—The Post War Prospect

In preceding sections we have purposely refrained from discussing the air transport industry, since our April 5 issue treated this subject in detail. Nevertheless, any view of the post-war prospect inevitably touches in some way on commercial air transportation. So great do some authorities believe the outlook for air transportation that it is considered as one of the outstanding industries likely to help take up the inevitable economic slack which will materialize on the war's end.

After the war, feeder systems should develop rapidly, and ultimately every sizable community in the United States will be part of the great air transportation network, largely through the feeder system. The field of



air freight, the surface of which scarcely has been scratched, is likely to see tremendous development. Last month, four airlines—American Airlines, Eastern Air Lines, Transcontinental & Western and United Air Lines —formed a new company, Air Cargo, Inc., to survey completely the prospects for transporting freight and express by air.

The accompanying chart shows the mushroom-like growth of civilian planes in recent years. The current civilian-plane total of more than 17,000 units exceeds all previous highs impressively, but it is a mere beginning of the civilian aircraft boom. Builders of small planes for private owners, now turning out 800 ships a month, should find their market sharply expanded after the war. Civilian aircraft production last year reached 6,870 units, a gain of about 100% over the 1939 totals. Around 6,000 were in the light plane class, principally using motors of 65 hp. The Government's Civilian Pilot Training Program resulted in approximately 25,000 youths learning to fly last year.

It has been estimated by the Aeronautical Chamber of Commerce, moreover, that if the war lasts two years more, several hundred thousand pilots will have been trained. Many of these will not want to stop flying when the war ends. Their flight training will have presented them with a new field which many will enter for a livelihood. This very likely will result in the formation of many new aircraft and air line companies, and other companies devoted to the numerous activities involved in the field of aviation.

Some of our far-sighted pioneers of the air transportation industry envisage an era when some 50,000 commercial transport planes (there are now about 450) will be in service. There will be a world-wide market for these, and our manufacturers are expected to capture a good part of it. Even such imagination-staggering pictures are being drawn as giant dirigibles several thousand feet long which will stay in the air for years at a time, be able to circumnavigate the globe and receive shuttle service (supplies, cargo, etc.) from the earth by small planes.

Getting down to practicalities, however, the war, with its expenditures of untold billions of dollars for aircraft, should bring many improvements in flying machines. Speed, useful load and range will be increased, making aircraft operations more economical. And, most importantly, nations are not likely to dismantle their air forces after this war. As a matter of fact, the lessons of the current conflict will be so vivid for years to come that the air forces probably will be maintained with the consent of the people in the same way that fire and police departments are maintained now.

The field of international air transportation should expand rapidly in the future days of peace. Merchant fleets of the air, operating under many flags over every ocean on various trade routes will be competing for trade in much the same manner as steamships did before the war. Western hemisphere unity will make for greatly increased air travel between the United States and all of our Southern and Northern neighbors. For an inkling of the possibilities, it is noteworthy that tractors are reported already to have been flown as air cargo to South America. It is reported, too, that a 600-gallon fuel oil transport plane has been constructed for servicing Nicaragua mining areas.

Though air transport companies naturally are having difficulty in getting all the equipment they need, they nevertheless are continuing to be supplied on a substantial scale, in spite of the pressure for military planes. Following the thought of Col. John H. Jouett, President of the Aeronautical Chamber of Commerce of America, experience has taught us that technical development and production of new models of transport equipment is necessary in order that we may keep pace with technical developments of transport planes. That is essential if we are not to be surpassed by foreign competitors.

Even now the warring nations are maintaining intense technical development of transport planes. At the same time they are building up great fleets which may be our competitors in the air shipping world of the future. Most noteworthy is the fact that none of the countries abroad are giving up their air transport programs, and all have an eye on the coming greater era of the commercial airplane.

With a view to benefitting from this, most of our leading domestic producers (*Please turn to page 55*)

AIRCRAFT—Deliveries, Taxes, Profits, Ratings, Etc.

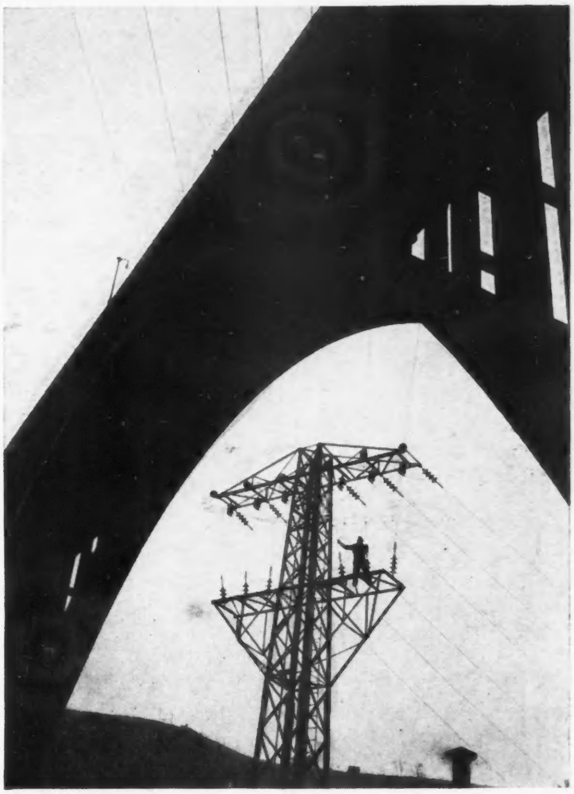
Company	1940 Total Sales	1940 Total Taxes	1940 Net Income	% of Net to Sales	Earned Per Share 1939	Earned Per Share 1940	Div. Pd. Per Share 1939	Div. Pd. Per Share 1940	*Excess Profits Tax Exemption	Ratings Tax Rtg.	Ratings Mkt. Rtg.	Recent Price
Beech Aircraft (S)	$2,345,255	$17,714	$68,193	2.9%	d$0.25	$0.17	....	....	$0.25	II	D-1	4¾
Bell Aircraft	5,188,000	91,500	284,745	5.5	0.04	1.14	....	....	1.00	I	C-1	18½
Boeing Airplane	19,390,718	188,812	374,655	1.9	d4.55	0.35	....	....	0.50	II	C-1	13½
Brewster Aero	10,112,301	129,503	280,057	2.8	0.02	0.54	$0.20	$0.25	0.50	II	C-1	7¾
Consolidated Aircr	9,349,550	104,022	1,400,645	15.0	1.79	2.30	....	2.00	2.40	I	C-1	24½
Curtiss-Wright Corp	138,720,151	27,885,936	15,746,874	11.4	0.39	1.81	....	0.50	0.35	I	B-1	8
Douglas Aircraft (N)	60,970,774	2,567,853	10,831,971	17.8	4.81	18.05	3.00	5.00	10.25	I	B-1	67
Fairchild Aviation	3,779,091	490,226	648,698	17.1	1.25	1.92	0.40	0.50	1.25	I	C-1	9
Grumman Aircraft	8,811,294	1,008,395	1,415,964	16.0	1.85	2.79	1.05	1.25	1.65	I	C-1	13¾
Lockheed Aircraft	44,936,595	2,066,050	3,165,676	7.0	4.04	3.17	1.00	1.50	2.50	I	C-1	21
Martin (G. L.) Co.	30,663,337	3,020,500	5,424,490	18.0	3.75	4.94	1.00	2.00	3.50	I	C-1	26¼
North Amer. Avia.	36,862,514	2,992,000	7,090,366	19.5	2.06	2.06	1.40	1.25	1.85	I	C-1	13¼
United Aircraft	126,754,830	8,902,264	13,139,983	10.3	3.53	4.95	2.00	3.50	3.40	I	B-1	35

S—Year ends September 30 (not subject to excess profits tax for last fiscal year. N—Year ends Nov. 30 (not subject to excess profits tax for last fiscal year.)
*This is the estimated exemption per share, taking into account recent amendments favoring growth companies (1940 base). d-Deficit

Utility Death Sentence Produces New Type Speculation

Conservative Asset Values of Many Holding Company Preferreds in Excess of Redemption Prices

BY FRANCIS C. FULLERTON



Westinghouse Photo

JUST about six years ago the Public Utility Act of 1935 was made a law. Although the Act was designed to regulate the entire public utility industry, it was Section 11—the so-called "death sentence"—which was of the most far-reaching importance. Section 11 was designed to force the dissolution of holding companies which, either rightly or wrongly, were held responsible for many financial abuses of the late 1920's. The Act was none too clearly phrased as far as the "death sentence" was concerned, although it was conceded that the most literal interpretation of the law would make it mandatory for the holding companies to divest themselves of all or most of their holdings.

In the years that have passed holding companies and their security owners were almost certain that something would intervene to give the companies at least a stay of execution. Among the hoped-for developments were a change in the political complexion of the Administration or, perhaps, a somewhat more lenient interpretation of the letter of the Act because of national emergencies and defense efforts. Neither of these has developed. The same political group which sponsored and passed the 1935 law continues in power today and instead of relenting in the strict application of the law, the S E C—charged with carrying out the provisions of the Act—is apparently going to administer it in the light of its own rigid interpretations.

Paradoxically, the final realization that the Government is bound and determined to liquidate the top holding companies has had a beneficial effect upon the market for many holding company securities. When the law first went into effect, holding company securities started to drift lower and lower in market price and never staged more than a spasmodic recovery from then until recently. Now that it is realized that many holding companies will be forced to liquidate, speculators are beginning to pay some attention to the intrinsic value behind the various holding company securities and their appraisal is becoming increasingly reflected in the market values. Holding company bonds have long since risen to a point where nothing further could be expected in liquidation but many of the holding company preferred shares are still selling well below their indicated liquidating value. As far as the common shares are concerned, there are only a very few which might expect to receive anything tangible in the event that all of the companies' assets should be liquidated but even here, there will probably be many instances where sufficient intangible and contingent items will remain after the bonds and preferreds have been paid off to warrant some speculative attention to even the most junior of the equity groups. It is in the preferred shares, however, that the liquidating values can most easily be determined and these shares offer the best speculative opportunities among the public utility holding company equities.

Before further discussing the liquidating values of various securities, it might be well to explain how such figures are arrived at. It is, of course, well known just what securities are held by the various holding companies although not all of the securities so owned have an

open market value for the very good reason that there have been no sales in public for a number of years. Then, too, granting a sustained public market for many of the operating company securities, some weight must be given to the size of the blocks held by the holding companies and the frequent difficulty of selling such large amounts without being forced to do so at a sacrifice. It is fairly easy to estimate the value of operating company shares which have no present public market, although experience in similar sales must be the guide to evaluating the probable effect of forced selling.

Where the securities which constitute the investment portfolios of the holding companies have a public market, either on a recognized exchange or over-the-counter, the latest quotations—with some concessions to the probable effect of large size offerings—will serve to place a gross value on the block held. Actually, in recent months it has been relatively easy to sell a large block of stock over-the-counter and the prices obtained have, on average, been better than those which would have accrued if the shares had been sold piecemeal in the normal manner. Therefore, the latest market prices for such operating company shares would constitute a very fair appraisal of their immediate worth.

In the case of securities which lack the advantage of public markets, appraisal of their probable market worth is somewhat more complicated although even in this instance, arriving at a tenable conclusion is not too difficult although subject to a somewhat wider margin of error. In working toward the probable value of such securities, a number of factors must be considered. Among these are the condition and efficiency of the operating companies' plants and equipment, rate structure, public relations, territory served, value to adjacent utility operating companies and demonstrated earning ability.

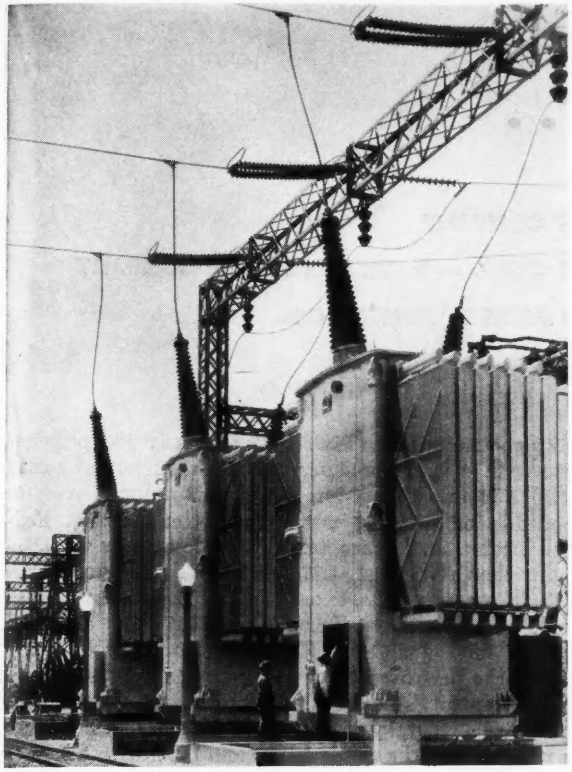
While the foregoing are relatively intangible determinants, it is possible to arrive at a basic market value by calculating the companies' ability to earn on their capital investment. This, then, is the primary consideration in placing a valuation on the shares and all other considerations are only modifiers. It is upon this base that the valuations used in the accompanying table have been arrived at, and in order to compensate for any changes in market conditions as well as to furnish a margin for error, valuations have purposely been held down to conservative levels. In a few cases, earnings have been adjusted to compensate for the elimination of current management charges and in others to offset the effect of higher taxes or possible rate changes. To all intents and purposes, however, the liquidating values assigned to the various holding company preferred stocks are reasonably correct for the immediate term.

Not all holding companies will go out of business and liquidate all of their holdings for some will find it a fairly easy matter to make some corporate changes and after divorcing themselves of a comparatively small part of their holdings, conform to the letter of the law through forming a closely integrated or contiguous group of operating companies. The United Gas Improvement Co. plan is a case in point. U. G. I. owns properties in Pennsylvania, Maryland, Delaware, Connecticut and New Jersey. The two latter holdings consist of a sizable amount of Connecticut Light and Power Co. shares and approximately 38 per cent of the common stock of the Public Service Company of N. J. The plan—which was formulated by the S E C—calls for an integrated system of electric properties in the Philadelphia area and is to include the properties in the contiguous states of Maryland and Delaware. Gas properties in Pennsylvania and other scattered sections of the country will be disposed of as will the holdings of Public Service of New Jersey. The 701,253 common shares of Connecticut Light & Power have just been sold at a price of 39½ by U. G. I. There are some company objections to the integration plan but it will probably be made effective in substantially its present form.

Directly opposite to the plan of U. G. I. is that of Standard Gas & Electric Co., which has announced its intention — with the stockholders' approval — of selling its many and widely scattered properties, with the possible exception of those in the Pittsburgh area, and after that, effecting the dissolution of the parent company. Without trimmings, the plan contemplates the sale of all properties with the exception of the Philadelphia Company which in turn controls the immensely profitable Duquesne Light Company of Pittsburgh and environs. The proceeds of the various sales will be used to pay off the Standard Gas bonds. In that event, ownership of the Philadelphia Company would then be vested in

Approximate Liquidating Value of the Leading Public Utility Companies Preferred Stocks

Company	Class of Stock	Assets per Share	Recent Price	Liquidating or Call Price	Approx. Div. Arrears
American Gas & Electric	$4.75 pfd.	$595	110	$110	..
American Light & Traction	6% pfd.	110	26	25	..
Amer. Water Works & Elec	$6 pfd.	198	93	110	..
Columbia G. & E.	$6 pfd.	125	80	110	..
	$5 pfd.	90	71	100	..
Commonwealth & Southern	$6 pfd.	140	58	110	18
Electric Bond & Share	$6 pfd.	125	63½	110	..
	$5 Pfd.	125	61	110	..
Electric Power & Light	$7 1st pfd.	50	33	110	58
	$6 1st pfd.	50	30	110	50
	$7 2nd pfd.	Nil	9¾	105	61
Engineers Public Service	$5 conv. pfd.	155	79	105	..
	$6 pfd.	155	87	110	..
	$5.50 pfd.	155	81½	110	..
Federal Light & Traction	$6 pfd.	275	94	110	..
National Power & Light	$6 pfd.	315	97¾	110	..
New England Power Assn	$6 pfd.	75	44	100	..
	$2 pfd.	20	14	37	..
North American Co.	6% pfd.	195	56½	55	..
	5¾% pfd.	195	55½	55	..
North American L. & Pwr	$6 pfd.	105	75	105	52
Northern States Power	7% pfd.	108	112	110	4
	6% pfd.	108	110	107½	3
Philadelphia Co.	6% pfd.	200	45	50	..
	$6 pfd.	495	86½	110	..
Standard Gas & Electric	$7 pfd.	40	19	115	32
	$6 pfd.	40	16½	110	48
	$4 pfd.	Nil	3	100	42
United Light & Power	$6 pfd.	65	26	105	54
United Gas Improvement	$5 pfd.	485	111	110	..
West Penn Electric	$7 pfd.	175	110½	115	..
	$6 pfd.	175	102	110	..



Westinghouse Photo

Standard Gas & Electric preferred stocks. From that point on, the procedure is not so well defined. It is possible that Philadelphia Company would operate Duquesne Light for the benefit of Standard Gas preferred stockholders; the control of Duquesne Light might be sold and the proceeds distributed to the preferred holders or, the Duquesne stock might be issued directly to Standard Gas & Electric preferred shareholders and Standard Gas & Electric would then go out of business. Whichever step is taken would, however, be favorable for the preferred stockholders and the fact is generally well recognized, as witness the sharp increase in market value of the stocks in recent months. No plan is evident for Standard G. & E. common shareholders although there might even be some tentative assets remaining after the preferreds had been satisfied.

Still another plan for compliance with the Public Utility Act of 1935 has been presented by United Light & Power Co., a top holding company. Briefly, the plan proposes a certain degree of geographical integration—one of the major provisions of the act—but most of all will make for a much simplified corporate structure. This would be achieved by the formation of Peoples Light and Power Co. to purchase U. L. & P.'s holdings of nine separate companies operating in eastern Kansas, northwestern Missouri, southeastern Nebraska and southwestern Iowa. These companies, operating in contiguous territories, would center around Kansas City Power & Light Co. Other properties not immediately concerned would be sold, the proceeds of all sales used to pay off the debenture bonds, and its holdings of United Light & Railways Co. would be distributed to United Light & Power's stockholders on a pro-rata basis. After this, U. L. & P. would dissolve.

This move would leave United Light & Railways as the parent company. Then, it is proposed that United Light & Railways will invest approximately $13,500,000 in the new Peoples Light & Power Co. which would become the operating subsidiary with its properties all located within a fairly close area and with only one company above it. It should be noticed that in this plan, preferred shareholders of United Light & Power have improved their equity position in the capital structure through elimination of the top holding company debentures and would then become the controlling security of the system.

Another tentative integration plan which would eventually provide for the elimination of top company funded debt and the retirement of a sizable proportion of the preferred shares is that which has been set forth for Engineers Public Service Co. This plan—formulated by the S E C—calls for the divorcement of approximately two-thirds of the company's utility interests with either Virginia Electric & Power Company or Gulf States Utilities Company as the ultimate top holding company. The plan goes somewhat further than most for in it the Commission indicates that some of the operating companies' shares should sell at 10 to 12 times earnings; a price at which not many good operating company shares are selling in the open market today. This does serve, however, to indicate that the S E C will not approve any sales at distress prices and thus jeopardize the equities of top holding company preferred stockholders.

While the S E C plan furnishes an alternative in suggesting Gulf States Utilities instead of Virginia Electric, it is the first suggestion that has the complete favor of the Commission. In the event that Virginia Electric is selected as the controlling company then Engineers will have to give up Gulf States Utilities, El Paso Electric, Western Public Service, Puget Sound Power & Light and Key West Electric Co. If the Gulf States alternative is selected, then Engineers will be deprived of Virginia Electric and all other companies as well. Under one interpretation of the Act, Engineers might be permitted to continue with El Paso Electric although it is not likely that the Commission would approve such a move. Here again, some liquidation is inevitable and the Commission has indicated that it would expect the proceeds of the sales to be applied to at least partial redemption of Engineers Public Service preferred shares. Naturally, the plan will not go into effect without some argument from Engineers but even if the final plan adopted be substantially modified, the changes would not deprive Engineers' preferred stockholders of their position as potential recipients of considerable benefits to accrue.

There is another phase to the utility holding company dissolution plans which would not call for the distribution of assets to the holding company stock-holders and that is the one whereby certain operating properties would be sold but the funds so obtained would be used to improve and strengthen the position of the properties which the S E C would permit the holding companies to retain. Such a step would still be favorable to the holding company stockholder since it would make his company the owner of a more closely integrated group of operating companies with (*Please turn to page* 51)

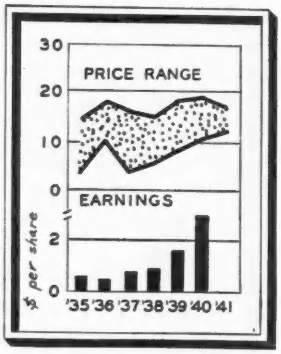
Another Look At . . .

ELECTRIC BOAT COMPANY — LINK BELT COMPANY

MID-CONTINENT PETROLEUM CORP. — NATIONAL SUPPLY COMPANY

OLIVER FARM EQUIPMENT CO.

Electric Boat Company



That no recent news of building activities in the yards of this leading private builder of submarines is available is understandable. Submarines are one of the most adequate weapons of naval defense and offense and as such, any publicity as to the number, kind and recent improvements of the under-sea vessels on order or under construction would be giving helpful information to enemies, either potential or actual. What we do know of the activities of Electric Boat Company is that the productive capacity of the company's several yards has been doubled in recent months and plans call for the launching of at least one vessel a month from the company's ways in the near term.

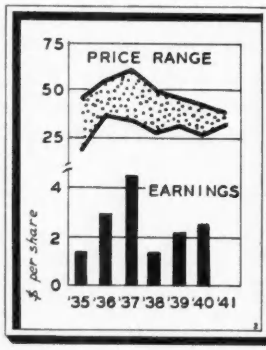
Practically the same secrecy applies to the company's other major activity, the construction of high speed submarine chasers or torpedo boats. It is known that boats similiar to those which are being used by all of the belligerents abroad are being constructed in quantity in the company's Bayonne, N. J., plants and, indeed, several of these vessels may be seen from time to time, undergoing tests in the waters adjacent to New York City. These boats are being constructed for both the American and British Governments although it is likely that the British will receive the bulk of the output, pending the outcome of the critical conditions abroad. Over the longer term, it is probable that the number of such craft required by our own and the British fleets will exceed by far, the number of submarines needed and as such will probably constitute the bulk of the company's later building activities.

Electric Boat Company reflected the sharp increase in demand for its particular types of war-craft in the 1940 earnings statement. Gross revenue for the year made another gain to a total of $16,877,709, or approximately 16 per cent higher than in 1939. Profits, after deducting operating cost of $13,482,719, depreciation of $162,238, reserves of $268,654 and special amortization items of $61,013, amounted to $2,903,085 or nearly 135 per cent greater than in the previous year. A reduction of nearly $2,500,000 in reserves for Vinson Act refunds was responsible for the most part of the better showing. Federal income and other taxes were less than $500,000 higher than a year ago at $759,423 and this figure did not include excess profits taxes of $32,183 which was also paid. However, net income of $2,174,607 after all charges was equal to $2.89 a share, or approximately double the per share earnings reported for 1939.

The company's financial position showed a similar improvement. Total assets were about $6,600,000 higher in 1940 than at the close of 1939 and the greatest part of the increase was in current assets which rose practically that amount to $16,722,794. Current liabilities at $3,741,726 were also higher but the increase was only about $2,800,000 or less than half the gain in current assets.

The company's shares—currently selling at a point about mid-way between the year's highs and lows—are reasonably priced on earnings and dividends and present quotations seem adequately to discount the relatively long term future without giving undue consideration to the nearer term prospects of even higher than 1940 earnings and a possible increase in dividend payments during the current year.

Link Belt Company



Link Belt Company benefited more indirectly in the additional industrial activity generated by defense preparations than by the receipt of government orders, for its particular products were in exceptionally good demand by many manufacturers engaged in the mass production of armament materials. The company did have an undisclosed amount of direct Government business although the actual amount is believed to have been relatively small and accounted for but a minor part of the increased business experienced by the company last year.

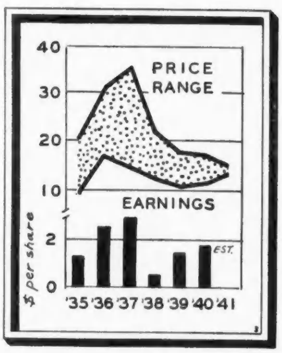
The volume of Link Belt's 1940 business can be mea-

sured by net sales which totaled $28,640,342 as compared with slightly less than $23,000,000 for 1939. Operating profit rose more than $2,700,000 to a total of $3,823,276 from a year ago and total income, after the inclusion of $262,440 of other income from undisclosed sources, amounted to $4,085,716 as compared with $2,364,980 in 1939. After deducting fixed charges and taxes, net profit was equal to $2,514,380 or, after preferred dividend requirements, $3.37 a share of common stock. This compared favorably with $2.23 a share of common stock reported for 1939. Federal income taxes of $921,776 were approximately $530,000 higher than a year ago to which must be added $421,410 in excess profits taxes. The combined Federal taxes were equal to be almost $2 a share on the 684,462 shares of common stock then outstanding.

The increased business resulted in an improved financial position. Current assets were approximately $2,000,000 higher than a year ago at $15,590,799 while current liabilities were about $1,600,000 higher at $4,125,394.

The company has reasonably good longer term prospects even after the rush for armament equipment will have passed. For instance, automatic stoker sales are on the increase and promise to play an even more important part in the company's business at a later date. All manner of industries use the company's equipment and even in the deepest of depression years the company operated at a profit of sorts. The only apparent drawback in the situation at the present time is that future gains will probably be at a slower pace than in 1940, although it is likely that 1941 results will be moderately better than a year ago despite higher taxes and other costs. In the meantime, the shares are well in line with current conceptions of price-earnings ratios.

Mid-Continent Petroleum Corporation

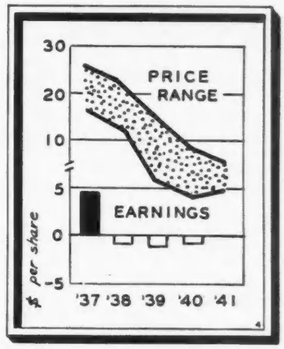


Although 1940 earnings figures of Mid-Continent Petroleum Corp. are not as yet generally available, it is estimated that earnings per share were approximately $1.75 after all previous charges as compared with $1.43 a share of common stock in 1939. The company enjoyed a better than average year in 1940 due to favorable conditions in the company's service area, which is in the industrial Middle and Southwest.

By this time, the company should be benefiting from its new $1,000,000,000 refinery at West Tulsa, Oklahoma, where the new D-X Lubricating Motor Fuel is being manufactured. This new fuel is a premium quality gasoline which contains a non-caking lubricant. Combined with the almost complete absence of sulphur, this product reduces motor wear and offers an excellent sales point.

The company has long been in a strong financial position and nothing in recent months has transpired which would alter this condition. There is no funded debt or similar obligation ahead of the 1,857,912 shares of common stock and since the established policy of the management has been to finance improvements out of current earnings, it is likely that there are currently no bank loans or similar debts. Last year's dividends of $0.80 a share were 33 per cent higher than in 1939 and it is possible that there will be further increases this year. The market action of the stock has been decidedly good for a small oil company and while no great speculative profits are in prospect, the shares are among the better ones of the moderately priced oil group.

National Supply Company



The experience of National Supply Company in 1940 was an excellent one, for not only were sales higher, but operating costs declined during the period. Were it not for taxes, the situation would have been an ideal one but as it was, taxes rose 96.8 per cent and reduced profits gains from 50.1 per cent before taxes to 36.9 per cent after the various imposts had been paid. Nevertheless, profits were not sufficiently high for, after deducting preferred requirements, an operating deficit of $0.49 a share was incurred.

Preferred dividend arrearages still prevent an early resumption of common dividends, which were abandoned late in 1937. At the close of the year, these accruals amounted to about $8.94 on the 6 per cent prior preferred, $9.75 a share on the first preferred and about $4.50 a share on the $2 preference stock. During the year $2.06 was paid on the first preferred accruals, $2.25 a share on the 6 per cent preferred but nothing was distributed on account to the $2 preference shareholders.

During last year the company reported Federal orders amounting to about $7,000,000 for Diesel engines, parts and other materials made by the company. Production facilities are being expanded in the anticipation of a greater volume of defense orders to come. Business from the oil fields—the company's major section of service—were in good volume and the company anticipates no decline in the volume of business from this quarter during the current year. A new electric furnace at Torrance, California and a new shell forging plant at Ambridge were scheduled to begin operations last month.

The 1940 balance sheet showed a strong financial position with cash of nearly $5,000,000 and inventories close to $24,000,000. Of more importance to the company was that bank loans of $1,500,000 outstanding at the beginning of 1940 were paid off during the year and the funded debt was reduced $300,000 to a total of $9,400,000. Current liabilities were lower by over $500,000 at $5,144,810.

The company's 1941 prospects are good although it is not likely that earnings will be of sufficient size to permit elimination of preferred stock arrearages. Nevertheless, some progress toward such an end is probable and on that basis the preferred shares contain some degree of speculative attraction not (*Please turn to page 52*)

For Profit and Income

Oil Prospects Brighten

Second quarter outlook for the oil industry is definitely on the side of improvement. Aided by unusually well sustained demand, stocks of gasoline, although still high, have been reduced and present inventories are about 4,500,000 barrels under a year ago. Prices of gasoline have been advanced in several important consuming areas, while recently crude prices, involving about 95 per cent of total production, were advanced on an average of 5 cents a barrel. With the season of heaviest consumption just ahead, some forecasts are being heard of a gain of 9 per cent in domestic sales of refined products this year. If this estimate appears rather optimistic, particularly in the face of the 7 per cent gain last year, it should be remembered that greatly increased needs of both the Army and Navy this year will be an important factor. Export prospects remain somewhat obscured, although some increase may result from the Lease-Lend Bill. First quarter earnings of most oil companies were probably lower than a year ago, but with the benefit of higher prices and rising consumption, results in the current quarter promise to show marked improvement. The recent market action of oil stocks suggests that this prospect has attracted both speculative and investment interest to the group.

American Airlines

Air travel established new high records in first three months of this year—but higher costs restrict gains in net income of leading air lines.

Air Travel Flattens Out

Although the volume of revenue passenger miles flown by the major air carriers in March was the largest on record, comparison with February and with March a year ago reveals that the rate of gain was the smallest in several years. It is possible that an increase in the number of accidents may have accounted for the failure of gains to attain more sizable proportions. In the first three months an estimated total of 229,563,000 revenue passenger miles were flown by 16 major carriers. Not only was this the largest total ever shown for this quarter, but it was also larger than in any previous three months since the beginning of the domestic air transport industry. Leading companies, however, may have difficulty in converting these gains in gross to a similar gain in net. According to an official statement, United Air Lines, with a gain of about 10 per cent in gross revenues nevertheless will report net income lower than in the first quarter a year ago. Rising costs were held responsible.

Republic Steel

First of the major steel producers to report for the past quarter, Republic Steel has issued an unusually interesting statement. In this period, the company's operations averaged 100 per cent of rated capacity and output established a new record. Unfilled orders at the end of March were the largest in the history of the company. Earnings topped first quarter results a year ago by $5,000,000. Net profits, however,

of $8,189,966 compared with taxes of $8,025,000. Total Federal taxes for all of last year were only about $8,000,000, but this year the company is splitting fifty-fifty with the tax collector.

Machine Tool Bottleneck?

Practically since the start of the defense program, the machine tool industry has repeatedly been cited as a major bottleneck likely to retard the production of all classes of armaments. Recently this accusation was emphatically denied by Clayton R. Burt, president of Niles-Bement-Pond. Mr. Burt contends that users of machine tools are getting them as fast as they need them. He points out that even if the industry had been able to make almost immediate delivery of new orders, the necessary plant facilities would not have been available, and in fact there have been a number of instances where new tools could not be immediately used for lack of floor space. Schedules are being fairly well maintained on orders where the new tools can be used immediately. The number of men employed by machine tool makers since the fall of 1939 has more than doubled, but many more will be needed before the second half of the current year. Shortage of skilled labor may be the real bottleneck in the machine tool industry.

Speculative Preferred

Wilson & Co. 6% preferred shares offer the combined inducements of a generous yield and a fair measure of speculative price appreciation. Last year the meat packing industry, as a whole, had one of its best years since 1929, and thus far in the current year similar conditions to those which favored the industry in 1940 are having an increasingly favorable effect. Prices have advanced, enabling packers to record good profit margins on the stocks acquired during the period of heavy slaughter in the closing months of 1940. It is possible, in fact likely, that results later in the year may feel the restricting effects of increased operating costs and taxes, but over-all results should compare favorably with last year. Sales of Wilson & Co., the third largest meat packer, recorded a substantial gain and net earnings available for preferred dividends were equal to $11.21 a share on 323,236 shares of 6% preferred stock. This compared with $9.90 a share in 1939. Taking cognizance of the improved earnings and the more promising outlook for the current year, directors have declared two dividends, one of $3 and another of $1.50 on the preferred shares, reducing accumulations to $6 a share. The company's capitalization is rather topheavy and year-to-year earnings have shown the wide fluctuations characteristic of the meat packing industry. For these reasons, the preferred shares are not qualified for conservative funds. As a speculative vehicle, however, the shares appear reasonably priced at recent levels around 70.

Additional Sales of British Holdings

On March 31, last, the British Treasury announced that it had completed the sale in the United States of 43 additional stock issues and five bond issues of American companies from its holdings of U. S. Securities taken over from its nationals. This makes a total of 147 stock issues and 23 bond issues in which liquidation of British holdings has been completed. There remain to be liquidated 109 stock issues and 69 bond issues. The securities are being sold to provide the British government with needed dollar exchange for its war efforts.

The latest list of securities which have been liquidated entirely is as follows:

STOCKS

Allegheny Ludlum Steel
Allied Chemical & Dye
Alpha Portland Cement
American Gas & Electric
Armour & Co. 6% conv. Pfd.
Beneficial Industrial Loan
Blue Ridge Corp. opt. $3 conv. Pfd.
Borden Co.
Bristol-Myers
Carolina Power & Light 7% Pfd.
Case, J. I. & Co.
Cerro de Pasco Copper
Cliffs Corp.
Commercial Credit
Crane Co.
Deere & Co.
Dresser Mfg. Co.
DuPont de Nemours & Co.
Electric Auto-Lite
Electric Bond & Share $6 Pfd.
General Foods
General Refractories
Goodyear Tire & Rubber $5 conv. Pfd.
Massachusetts Utilities Associates 5% Pfd.
May Department Stores
Minneapolis-Honeywell Regulator
National Steel
Niles-Bement-Pond
North American
Ohio Edison $6 Pfd.
Peninsular Telephone Co.
Southern California Edison
Sperry Corp.
Swift & Co.
Texas Gulf Sulphur
Union Carbide & Carbon
United Carbon
United Gas $7 Pfd.
U. S. Gypsum
U. S. Smelting, Refining & Mining
U. S. Steel
Western Union
Walgreen

BONDS

American Power & Light, deb. 6's, 2016
Consolidated Cities Light Power & Traction 5% P/L 7/1/62
Columbia Gas & Electric deb. 5's, 4/15/52
Columbia Gas & Electric deb. 5's 5/1/52
Illinois Central R. R. 4¾'s, 1966

New Financing

Volume of new bond financing in the first quarter of this year fell sharply behind that for the fourth quarter of 1940. In great measure, this was due to the postponement of several large issues awaiting better market conditions. Dealers report that new issues have been moving off their shelves at a somewhat slower rate. This may be the first sign of what may be expected in competition with the impending public offering on May 1 of the new Defense Savings bonds by the Treasury.

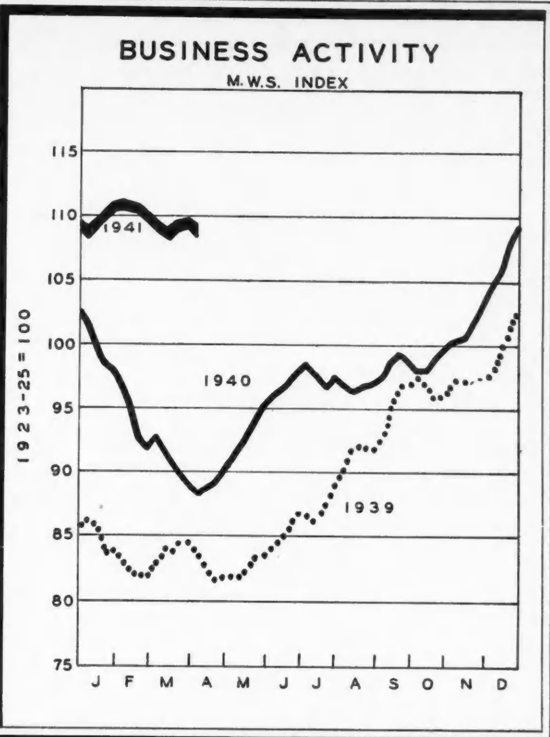
* * *

Corporate issues for the purpose of raising new money totaled $170,000,000 in the first three months of this year, against $112,000,000 in the same period a year ago. To the extent that any gain at all was shown, these figures are all to the good. Actually, however, the total of such financing by comparison both with refunding issues and the normal volume of new money issues is still so small as to be lacking in significance. It is possible, however, that increased working capital needs impelled by defense orders and increased inventory requirements, may bring more sizable gains in new money financing over the coming months.

So They Say

Western Union-Postal Telegraph merger is in the bag—if union opposition can be overcome. . . . Prices of shoes will be raised later this year. . . . Movie industry is heartened by sharply rising box office receipts. . . . Railroad results for March may be even better than anticipated. . . . Army has approved a plastic training plane; Timm Air-

(Please turn to page 55)



CONCLUSIONS

INDUSTRY—Price ceilings on factory and mine products clash with Government sponsored advances in wages and farm staples.

TRADE—Sharp increases in comparative figures largely due to later Easter this year.

COMMODITIES—More stringent price policing foreshadowed by new defense division.

MONEY AND CREDIT—Currency circulation continues marked uptrend. Commercial loans resume expansion. Loans and investments at new high in New York.

The Business Analyst

Business Activity has dipped sharply recently under the impact of strikes at bituminous coal mines, and at steel, automobile and parts plants, but should recover promptly and soon reach new high levels with the passing of labor stoppages. For the month of March, owing mainly to inability of the steel and motor industries, operating at near capacity, to stage the usual seasonal rise, per capita business activity sagged to around 109% of the 1923-5 average, compared with 110.3 in February and 90.4 during March of 1940. Average for the first quarter was about 109.6, an increase of 16% over the like period last year. Adjusted to the basis on which the Federal Reserve Board's index of **Industrial Production** is computed, our own index of Business Activity was 133% of the 1935-9 average in March, against 134 during February and 110 for March, 1940. First quarter average was 134 this year and 115 a year ago.

* * *

Spot prices for **Raw Materials,** according to this publication's index, advanced temporarily since our last issue to the highest level since 1937, but have since receded under uncertainties as to the war's duration raised by the Nazi attack upon Greece and Yugoslavia. It speaks well for the Government's efforts to avert in-

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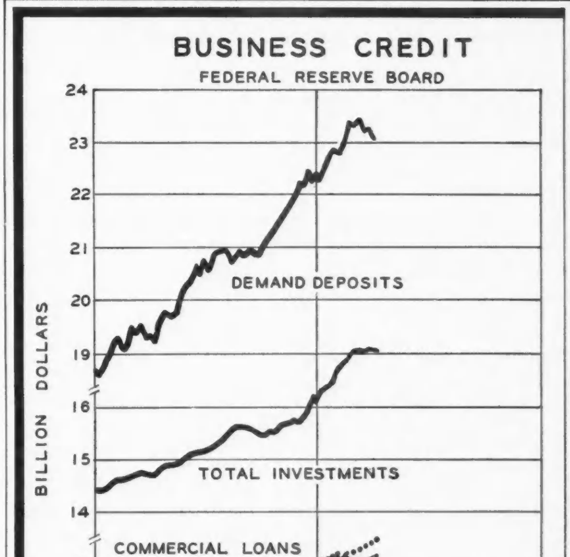


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Mar.	143(pl)	141	113
INDEX OF PRODUCTION AND TRADE (b)	Feb.	104	103	90
Production	Feb.	105	105	90
Durable Goods	Feb.	108	108	91
Non-durable Goods	Feb.	103	102	95
Primary Distribution	Feb.	96	95	85
Distribution to Consumers	Feb.	107	104	94
Miscellaneous Services	Feb.	98	95	88
WHOLESALE PRICES (h)	Mar.	81.3	80.6	78.4
INVENTORIES (n. i. c. b.)				
Inventories	Feb.	131.6	129.3	114.9
New Orders	Feb.	231	221	114
Shipments	Feb.	170	172	122
COST OF LIVING (d)				
All items	Mar.	86.3	86.1	85.5
Food	Mar.	79.2	78.8	78.8
Housing	Mar.	87.7	87.7	86.6
Clothing	Mar.	73.2	73.1	73.2
Fuel and Light	Mar.	86.4	86.4	85.8
Sundries	Mar.	98.3	98.2	96.9
Purchasing value of dollar	Mar.	115.9	116.1	117.0
NATIONAL INCOME (cm)†	Feb.	$6,145	$6,525	$5,604
CASH FARM INCOME†				
Farm Marketing	Feb.	$547	$547	$537
Including Gov't Payments	Feb.	629	754r	643
Total, First 2 Months	Feb.	1,383	......	1,378
Prices Received by Farmers (ee)	Feb.	103	104	101
Prices Paid by Farmers (ee)	Feb.	123	123	122
Ratio: Prices Received to Prices Paid (ee)	Feb.	84	85	83
FACTORY EMPLOYMENT (f)				
Durable Goods	Feb.	120.8	118.3	99.2
Non-durable Goods	Feb.	114.7	112.7	110.5
FACTORY PAYROLLS (f)	Feb.	126.4	120.7	99.3
RETAIL TRADE				
Department Store Sales (f)	Feb.	102	101	90
Chain Store Sales (g)	Feb.	130	124	114.0
Variety Store Sales (g)	Feb.	128	126	119
Rural Retail Sales (j)	Feb.	150.8	145.7	132.3
Retail Prices (s) as of	Mar. 1	123	122	121
FOREIGN TRADE				
Merchandise Exports†	Feb.	$303	$325	$347
Cumulative year's total† to	Feb. 28	628	......	715
Merchandise Imports†	Feb.	234	229	200
Cumulative year's total† to	Feb. 28	463	......	442
RAILROAD EARNINGS				
Total Operating Revenues★	Feb.	$358,413	......	$313,595
Total Operating Expenditures★	Feb.	255,590	......	240,580
Taxes★	Feb.	34,326	......	29,719
Net Rwy. Operating Income★	Feb.	58,479	......	32,857
Operating Ratio %	Feb.	71.31	......	76.72
Rate of Return %	Feb.	4.01	......	2.26
BUILDING Contract Awards (k)	Mar.	$480	$270	$272
F. H. A. Mortgages				
Selected for Appraisal†	Feb.	99.1	86.0	84.5
Accepted for Insurance†	Feb.	52.1	54.7	45.0
Premium Paying†	Feb.	61.3	78.8	51.6
Building Permits (c)				
214 Cities†	Feb.	$80	$86	$69.4
New York City†	Feb.	14	20	21.1
Total, U. S.†	Feb.	94	106	90.5
Engineering Contracts (En)†	Mar.	$452	$424r	$180

PRESENT POSITION AND OUTLOOK

(Continued from page 37)

flation that the highest average price this year for the 14 most important raw materials was still more than 10% below the 1937 peak touched on April 3. Prices of less important imported commodities, however, such as pepper, quinine, sisal, etc., not included in our index, have topped their 1937 peaks, owing largely to rising ocean freight charges and growing scarcity of cargo space.

* * *

Since the volume of Government deficit financing through the banks this year will be considerably heavier than last year, it goes without saying that aggregate business profits will also be larger; though unusually spotty as to distribution among the various industries and individual companies. Best showing will be in instances where selling **prices** can be advanced to compensate for rising taxes, material and labor costs. Poorest results will be reported where custom or government controls impose a ceiling upon selling prices.

* * *

Dividends declared during March were 6.3% more liberal than a year earlier, against a gain of only 5.2% for the first quarter. The Bureau of Agricultural Economics expects **farm income** for the second quarter to be somewhat ahead of last year, owing to larger domestic consumption, higher prices, and larger exports under the lease-lend program. Total merchandise **exports** in February were 13% below last year, compared with a loss of only 11% for two months; while February **imports** rose 17%, against 5% for two months. February's **wholesale sales** were 20% above last year, and **rural sales** rose 15%. Owing to this year's late Easter, **department store sales** in the week ended March 29 spurted to 34% above last year, against a four-weeks' rise of only 9%—making a 10% increase for the year to date. Due to higher taxes and wages, profits are not rising proportionately.

* * *

Engineering construction awards for the year to March 27 were 128% above the like period last year; with private awards rising 95% and public up 144%. Within another three months most of the new plants building under the initial defense program will be completed; but projects for further expansion seem likely to keep the industry at a high level of activity for the "duration."

* * *

Despite the threat of higher taxes and wages, **railroad** earnings this year are expected to be the best in a decade. N. O. I. in March was probably the largest since 1929. The soft coal strike will have little net effect upon earnings of the coal carriers; since loss of coal traffic after April 1st was fully offset by heavier shipments prior to the strike. It is estimated that the rails are saving $20,000,000 annually through the repeal of land grant reductions in freight rates on Government shipments which ranged from 40% to 60% below basic rates. Some saving in taxes would also result if the Treasury accepts a recommendation by the I. C. C. that depreciation charges be made against roadbed and structures.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Mar.	7,146	6,250	4,236
Pig Iron Production in tons★	Mar.	4,704	4,198	3,270
Shipments, U. S. Steel in tons★	Mar.	1,720	1,548	932
AUTOMOBILES				
Production				
Factory Sales	Mar.	525,000	509,233	440,232
Total 1st 3 Months	1941	1,536,909	......	1,275,960
Registrations				
Passenger Cars, U. S. (p)	Jan.	299,179	334,073	260,216
Trucks, U. S. (p)	Jan.	61,712	51,141	45,650
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Mar.	363	325	336
Shipments, U. S. & Canada★ (tons)	Mar.	351	321	322
Mill Stocks, U. S. & Canada★ (tons)	Mar.	205	193	229
LIQUOR (Whisky)				
Production, Gals.★	Feb.	12,658	13,572	9,878
Withdrawn, Gals.★	Feb.	5,834	5,019	6,616
Stocks, Gals.★	Feb.	491,301	486,133	470,514
GENERAL				
Paperboard, new orders (st)	Feb.	470,671	520,931(r)	367,897
Machine Tool Operations	Feb.	......	98.0	92.9
Railway Equipment Orders (Ry)				
Locomotive	Feb.	127	78	13
Freight Cars	Feb.	5,645	14,118	2,748
Passenger Cars	Feb.	45	130	20
Cigarette Production†	Feb.	14,465	16,287	13,163
Bituminous Coal Production★ (tons)	Mar.	48,250	41,695r	35,244
Portland Cement Shipments★ (bbls.)	Feb.	7,472	7,986	4,905
Commercial Failures (c)	Feb.	1,129	1,124	1,042

PRESENT POSITION AND OUTLOOK

Domestic retail sales of **automobiles** in March were 30% above the like month last year. Prices for the most part are holding at levels fixed last autumn—somewhat higher costs having been offset by larger volume—and general price adjustments are not likely before the start of the 1942 model year in the fourth quarter, when production may yield to prior demands of national defense.

* * *

The price of peace in the **bituminous coal** industry has been a 16% rise in basic wage rates. This will eat into profits unless the Government sees fit to raise the price ceiling fixed before terms of the strike settlement were reached. **Freight cars** ordered during the first quarter numbered 27,448, against only 4,808 in the like period last year. **Portland cement** shipments in February were 50% above last year.

* * *

Shoe prices will have to go up a little if present demands for wage increases are granted; but manufacturers have assured the N D A C that advances will not exceed increases in costs. In February, **whisky** withdrawals were 12% below last year; but, as production jumped 28%, month-end stocks rose to 4.5% above the level a year earlier.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Apr. 5	108.3	109.3	88.3
ELECTRIC POWER OUTPUT				
K.W.H.†	Apr. 5	2,779	2,802	2,381
TRANSPORTATION				
Carloadings, total	Apr. 5	683,402	792,125	602,697
Grain	Apr. 5	34,405	36,954	30,108
Coal	Apr. 5	58,841	168,827	100,187
Forest Products	Apr. 5	38,682	40,025	31,570
Manufacturing & Miscellaneous	Apr. 5	348,297	344,518	263,337
L. C. L. Mdse	Apr. 5	162,942	161,119	149,726
STEEL PRICES				
Pig Iron $ per ton (m)	Apr. 8	23.61	23.61	22.61
Scrap $ per ton (m)	Apr. 8	19.17	20.25	16.04
Finished c per lb. (m)	Apr. 8	2.261	2.261	2.261
STEEL OPERATIONS				
% of Capacity week ended (m)	Apr. 12	99	100	61
CAPITAL GOODS ACTIVITY (m) week ended	Apr. 5	117.0	119.0	76.3
PETROLEUM				
Average Daily Production bbls.★	Apr. 5	3,514	3,747	3,745
Crude Runs to Stills Avge. bbls.★	Apr. 5	3,600	3,625	3,560
Total Gasoline Stocks bbls.★	Apr. 5	99,112	99,727	103,690
Fuel Oil Stocks, bbls.★	Apr. 5	95,371	96,152	102,784
Crude—Mid-Cont. $ per bbl	Apr. 11	1.07	1.07	1.02
Crude—Pennsylvania $ per bbl	Apr. 11	1.78	1.78	2.23
Gasoline—Refinery $ per gal	Apr. 11	.06¼	.06	.06½

PRESENT POSITION AND OUTLOOK

Electric power output continues at about 16% above last year, while receding at the normal seasonal rate. Upon settlement of the coal strike, output should soon begin to respond again to rising defense needs. Prospects of heavier taxes and a probable demand later on for higher wages are likely to prevent profits from expanding as rapidly as production. After long discussions, the S E C has at last issued an order requiring competitive bidding on new issues of utility securities.

* * *

Though England has ordered postponement of delivery on a large portion of her **steel** orders—owing to ship shortage and accumulation of large supplies at home—backlogs continue to pile up, and customers are being turned away. It now seems probable that basic wage rates will go up about 16%, cutting into earnings unless compensatory price advances are allowed. Large, integrated companies, which have considerable income from products other than commercial steel, will be hurt less than the smaller "independents."

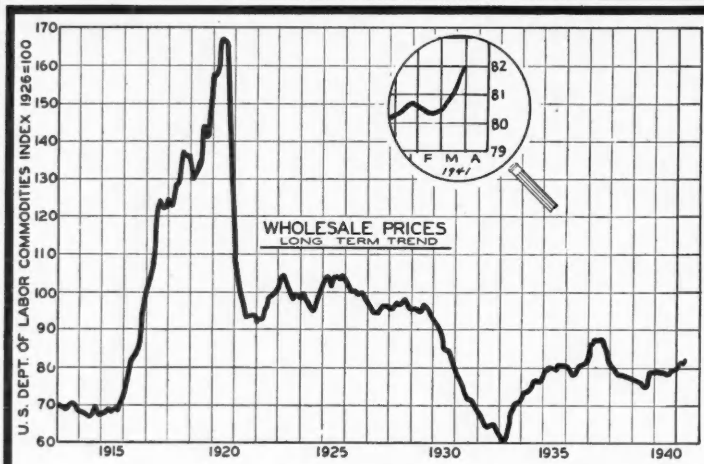
* * *

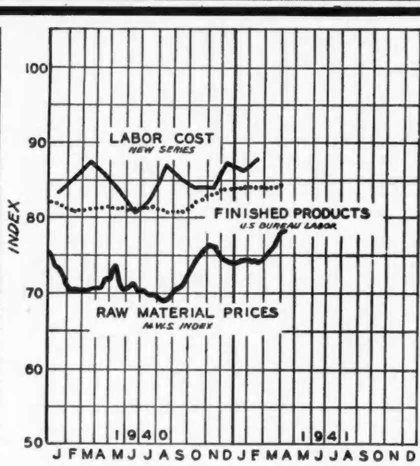
Despite a noticeably firmer price trand in **crude oil, gasoline** and **fuel oil,** the O P M believes that defense needs will not require Federal regulation of the industry.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%— estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

The announcement on April 11 by President Roosevelt of the creation of new division of the national defense set-up to be known as the Office of Price Administration and Civilian Supply, and headed by Leon Henderson, clearly foreshadows more rigid policing of prices. While accepting this latest move as bona fide evidence that the Administration is genuinely concerned in arresting an inflationary price rise, at the same time it is to be earnestly hoped that the policies of this new defense division are adapted without fear or favor. Half way measures will not suffice. If rising prices are to be effectively controlled, manufacturers and producers must be given a fair opportunity to control costs. It simply does not make sense to attempt to fix prices, if at the same time the matter of wages and strikes is neglected. Equally unreasonable would be a policy of cracking down on industrial prices, on the one hand, while on the other every effort is put forth to raise farm prices. With these factors in mind, any new policy should be carefully planned.





U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1940—1941 High	1940—1941 Low	Apr. 4	Apr. 10
28 Basic Commodities	137.4	105.6	136.2	137.4
Import Commodities	144.4	104.7	143.7	144.4
Domestic Commodities	133.1	105.5	131.5	133.1

	1940—1941 High	1940—1941 Low	Apr. 4	Apr. 10
Domestic Agricultural	136.1	111.4	134.0	136.1
Foodstuffs	139.9	100.5	137.4	139.9
Raw Industrial	135.4	101.3	135.2	135.4

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
May	Apr. 12	11.28	11.34	10.87
July	Apr. 12	11.25	11.29	10.59
Spot	Apr. 12	11.58	11.50	10.89
(In bales 000's)				
Consumption, U. S.	Mar.	840	794	627
Exports, wk. end	Apr. 11	2	17	54
Total Exports, season Aug. 1 to	Apr. 11	697	694	5,302
Government Crop Est. (final)	1940	12,686	......	11,817(ac)
Active Spindles (000's)	Feb.	22,769	22,821	22,801
WHEAT				
Price cents per bu. Chi. closing				
May	Apr. 12	91⅝	92¼	107⅞
July	Apr. 12	90¼	91¼	106¾
Exports bu. (000's) since July 1 to	Apr. 5	101,900	92,844	109,769
Exports bu. (000's) wk. end	Apr. 5	6,498	3,206	4,193
Visible Supply bu (000's) as of	Apr. 5	121,440	122,782	95,987
Gov't Crop Est. bu. (winter) (000's)	Dec.	816,698	......	751,435(ac)
CORN				
Price cents per bu. Chi. closing				
May	Apr. 12	67¾	67¼	59⅜
July	Apr. 12	68⅜	67⅝	60⅝
Exports bu. (000's) since July 1 to	Apr. 5	21,774	21,774	25,038
Visible Supply bu. (000's) as of	Apr. 5	64,086	63,476	38,375
Gov't Crop Est. bu. (000's) (final)	1940	2,449,523	......	2,619,317(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Cotton prices recently have been rather obviously, under the influence of European political and war developments. Liquidating pressure eased near the close of the past week and from the lows prices regained about $1.50 a bale. With the reconvening of the House, farm legislative prospects will again be in the spotlight. It is expected that a strong drive will be made by the cotton bloc to provide loans up to 75 per cent of parity, or about 12 cents a bale.

* * *

Wheat. Prices declined about 1 cent a bushel last week, with the expansion of the war zone in the Balkans. Prices, however are still about 10 cents a bushel higher than they were at the time the winter crop was seeded last fall. The April 1 crop estimate by the Government indicated a winter yield of 616,128,000 bushels, or about 8 per cent above the ten-year average. As in the case of cotton, farm legislators are urging higher loan values for wheat, with a good chance that their efforts may succeed.

* * *

Corn. Stocks of corn on farms as of April 1, totaled 1,180,078,000 bushels, 42 per cent above the ten-year average.

* * *

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Apr. 12	12½	12½	11.50
Export f. a. s. N. Y.	Apr. 12	11.00	11.00	11.50
Refined Prod., Domestic*	Mar.	95,322	93,654	86,295
Refined Del., Domestic*	Mar.	134,333	112,808	64,376
Refined Stocks, Domestic*	Mar.	89,873	97,689	159,795
Copper Sales, Domestic*	Feb.	91,742	104,832	147,112
TIN				
Price cents per lb., N. Y.	Apr. 12	52	52¾	46.23
Tin Plates, price $ per box	Apr. 12	5.00	5.00	5.00
World Visible Supply † as of	Mar. 31	39,971	44,107	32,339
U. S. Deliveries†	Mar.	16,092	12,195	9,244
U. S. Visible Supply † as of	Mar. 31	5,195	7,489	2,635
LEAD				
Price cents per lb., N. Y.	Apr. 12	5.85-5.90	5.85-5.90	5.10
U. S. Production*	Feb.	54,231	62,048	43,317
U. S. Shipments*	Feb.	54,859	55,711	39,176
Stocks (tons) U. S., as of	Feb. 28	46,604	47,248	72,658
ZINC				
Price cents per lb., St. Louis	Apr. 12	7.25	7.25	5.75
U. S. Production*	Mar.	63,366	56,334r	57,620
U. S. Shipments*	Mar.	63,483	59,220r	51,095
Stocks U. S., as of*	Mar. 31	6,969	7,086r	73,611
SILK				
Price $ per lb. Japan xx crack	Apr. 12	2.84½	2.85	2.85
Mill Dels. U. S. (bales)	Mar.	25,828	28,111	21,685
Visible Stocks, N. Y. (bales) as of	Mar. 31	49,904	54,106	45,887
RAYON (Yarn)				
Price cents per lb	Apr. 12	53	53	53
Consumption (a)	Feb.	35.2	31.6	29.7
Stocks as of (a)	Feb. 28	9.7	10.0	8.3
WOOL				
Price cents per lb. raw, fine, Boston	Apr. 12	1.08	1.08	1.04
Consumption, period ending (a)	Feb.	36,232	40,115	21,304
HIDES				
Price cents per lb. No. 1 Packer	Apr. 12	14½	14½	13½
Visible Stocks (ooo's) as of	Feb. 1	13,850	13,875	12,996
No. of Mos. Supply as of	Feb.	6.91	7.21	7.6
Boot and Shoe Production, Prs.★	Feb.	36,000	36,632	34,582
RUBBER				
Price cents per lb	Apr. 12	22.88	22.25	18.81
Imports, U. S.†	Feb.	73,973	86,833	43,088
Consumption, U. S.†	Feb.	61,016	64,225	49,832
Stocks U. S. as of	Feb. 28	353,733	340,857	148,776
Tire Production (000's)	Feb.	5,165	5,472	4,911
Tire Shipments (000's)	Feb.	4,910	4,847	4,118
Tire Inventory (000's) as of	Feb. 28	10,072	9,797	10,157
COCOA				
Price cents per lb.	Apr. 12	7.35	7.00	5.64
Arrivals (bags 000's)	Mar.	563	491	208
Warehouse Stocks (bags 000's)	Apr. 10	1,343	1,325	1,079
COFFEE				
Price cents per lb. (c)	Apr. 12	9¾-10	10	7¼
Imports, season to (bags 000's)	Mar. 31	12,673	10,782	10,620
U. S. Visible Supply (bags 000's)	Apr. 1	2,895	2,510	1,507
SUGAR				
Price cents per lb.				
Raw	Apr. 12	3.40	3.40	2.87
Refined (Immediate Shipment)	Apr. 12	7.31	6.94	4.50
U. S. Deliveries (000's)*	Feb.	597	524	428
U. S. Stocks (000's)* as of (rr)	Feb. 28	599	632	899

PRESENT POSITION AND OUTLOOK

Copper. Nothing definite is known concerning the probable outcome of the meeting between representative of the price stabilization division of NDAC and leading copper producers held last week in Washington. Primary producers, customs smelters and Lake producers all had their own particular axe to grind. Most concern was felt over the possibility that price ceilings might be made retroactive to apply against contract deliveries rather than new business. Metals Reserve Co., has allotted 55,000 tons for April delivery.

* * *

Tin. Reflecting large American deliveries, world visible supply of tin decreased 4,136 during March. Well-sustained consumer demand, for the purpose of building up inventories, have found response in moderately higher prices.

* * *

Lead. Buying in the first quarter of this year was at the rate of 7,000 tons monthly and present indications are that this rate will hold through April. The implication is that consumers are probably well supplied with reserve stocks.

* * *

Zinc. Shipments in March rose to 63,483 tons and were nearly balanced by production of 63,366 tons. Stocks at the end of the month were 6,969 tons and were at a new low and equal to only slightly more than three days' requirements.

* * *

Silk. Deliveries of raw silk to American mills totaled 25,828 bales. Stocks at the present time are equal to about two months' supplies. Hosiery shipments in February set a new high record.

* * *

Wool. Consumption promises to hold at a high level through the current quarter. Many mills are reported to have enough business on their books to maintain the current rate of operations through August. Army recently placed contracts for 18,000,000 yards.

* * *

Hides. According to reports, the unsold supply of hides in Chicago is the smallest in many years. Tanners continue active on the buying side. Manufacturers predict higher shoe prices this fall.

* * *

Rubber. Fears of a more stringent shortage of cargo space continue to be the dominant influence in rubber prices. Manufacturers will probably be requested to restrict production of non-essential rubber products. Meanwhile the Government's reserve program is behind schedule.

* * *

Cocoa. Like rubber, cocoa prices continue to display extreme sensitiveness to the spread of the war and the implied threat to shipping facilities. This condition was responsible for the sharp upturn in future prices last week.

* * *

Sugar. March deliveries are being estimated at 1,000,000 tons. Only twice previously was this volume achieved. Consumers are obviously building up stocks. Another increase in quotas appears to be definitely foreshadowed. Quotas may even be suspended to prevent an excessive rise in prices.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (p)—Preliminary. (rr)—Raw and refined. ★—Thousands. NA—Not available.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Apr. 12	1¼%	1¼%	1¼%
Prime Commercial Paper	Apr. 12	½-¾%	½-¾%	½-¾%
Call Money	Apr. 12	1%	1%	1%
Re-discount Rate, N. Y.	Apr. 12	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Apr. 9	3,316	2,608	2,709
Cumulative year's total to	Mar. 31	14,807	......	12,180
Bank Clearings, N. Y.	Apr. 9	4,126	3,148	3,621
Cumulative year's total to	Mar. 31	15,637	......	12,889
F. R. Member Banks				
Loans and Investments	Apr. 2	26,952	26,918	21,634
Commercial, Agr., Ind. Loans	Apr. 2	5,465	5,420	3,838
Brokers Loans	Apr. 2	504	542	727
Invest. in U. S. Gov't's	Apr. 2	10,578	10,583	8,145
Invest. in Gov't Gtd. Securities	Apr. 2	2,753	2,751	2,035
Other Securities	Apr. 2	3,793	3,786	3,290
Demand Deposits	Apr. 2	23,093	23,259	16,072
Time Deposits	Apr. 2	5,441	5,444	5,215
New York City Member Banks				
Total Loans and Invest.	Apr. 9	11,132	11,053	7,997
Comm'l, Ind. and Agr. Loans	Apr. 9	2,084	2,073	1,386
Brokers Loans	Apr. 9	344	370	541
Invest. U. S. Gov't's	Apr. 9	850	4,758	3,943
Invest. in Gov't Gtd. Securities	Apr. 9	1,580	1,576	1,050
Other Securities	Apr. 9	1,477	1,467	1,221
Demand Deposits	Apr. 9	10,994	11,026	7,221
Time Deposits	Apr. 9	758	744	625
Federal Reserve Banks				
Member Bank Reserve Balance	Apr. 9	13,656	13,506	9,528
Money in Circulation	Apr. 9	8,993	8,944	6,835
Gold Stock	Apr. 9	22,413	22,384	15,430
Treasury Currency	Apr. 9	3,113	3,110	2,842
Treasury Cash	Apr. 9	2,272	2,251	2,707
Excess Reserves	Apr. 9	6,030	5,940	3,880
		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Mar.	203	249(r)	134
New Capital	Mar.	86	31.5	30.5
Refunding	Mar.	117	217(r)	104

COMMENT

Even if allowance is made for heavy Easter trade requirements, it is rather apparent that the trend of currency circulation continues sharply upward. Total currency circulation of $8,993,000,000 at the present time is $1,484,000,000 higher than a year ago. Normally, currency demands would begin to decline at this time and reach a low about mid-summer. However, with increasing employment and expanding industrial and trade activity this pattern may not be followed this year.

* * *

Recording a gain of $11,000,000 in the latest reported week, loans to industry, commerce and agriculture by **New York City Member Banks** attained a new high for the move at $2,084,000,000. The previous high was $2,075,000,000 reached March 12, last.

* * *

Total loans and investments of **New York City Member Banks** are at a record high. The latest week showed a net gain of $79,000,000, with all loans off $27,000,000 and investments up $106,000,000. A decline of $26,000,000 in loans to brokers and security dealers was reported. Treasury bill holdings increased $68,000,000; Treasury notes were expanded $19,000,000; Treasury bonds increased $5,000,000; government guaranteed issues were increased by $4,000,000; and holdings of other securities were $10,000,000 higher.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No of. Issues	(1925 Close—100)	1941 Indexes High	1941 Indexes Low	Apr. 5	Apr. 12
290	COMBINED AVERAGE	56.9	47.8	51.9	47.8x
4	Agricultural Implements	92.1	75.4	80.7	75.4x
9	Aircraft (1927 Cl.—100)	183.9	145.7	161.9	145.7x
4	Air Lines (1934 Cl.—100)	314.1	221.3	246.3	221.3L
6	Amusements	24.2	21.3	23.0	21.5
14	Automobile Accessories	95.7	76.6	84.4	76.6x
13	Automobiles	11.0	8.0	8.7	8.0x
3	Baking (1926 Cl.—100)	10.7	8.3	10.7h	8.8
3	Business Machines	98.0	87.9	97.4	93.6
2	Bus Lines (1926 Cl.—100)	64.3	51.9	56.2	51.9L
8	Chemicals	159.0	136.3	147.0	139.0
18	Construction	26.1	20.5	22.6	20.5x
5	Containers	203.7	176.5	188.0	177.2
10	Copper & Brass	88.8	70.6	76.9	70.6x
2	Dairy Products	27.6	25.5	26.6	25.5x
6	Department Stores	19.7	16.7	18.7	17.8
6	Drugs & Toilet Articles	39.7	33.9	36.2	33.9T
2	Finance Companies	182.3	159.2	169.9	159.2S
7	Food Brands	82.7	74.9	81.8	77.8
2	Food Stores	45.2	37.0	38.5	37.0
4	Furniture & Floor Covering	42.2	35.3	37.3	35.3x
2	Gold Mining	703.8	624.1	651.6	624.1
6	Investment Trusts	19.2	16.1	16.8	16.1x

No.	(Nov. 14, 1936, Close—100)	1941 Indexes High	1941 Indexes Low	Apr. 5	Apr. 12
100	HIGH PRICED STOCKS	60.10	52.32	55.43	52.32x
100	LOW PRICED STOCKS	48.23	39.08	42.50	39.08x
3	Liquor (1932 Cl.—100)	148.2	119.5	124.6	119.5x
9	Machinery	111.9	90.5	97.6	90.5x
2	Mail Order	75.6	67.4	71.0	67.4x
4	Meat Packing	53.2	44.5	46.5	44.9
11	Metals, non-Ferrous	138.6	113.5	123.0	113.5x
3	Paper	13.6	11.1	12.5	11.1
21	Petroleum	75.5	67.4	75.5h	70.4
18	Public Utilities	38.6	27.3	29.1	27.3R
3	Radio (1927 Cl.—100)	9.9	8.3	8.7	8.3
9	Railroad Equipment	48.0	38.6	42.0	38.6x
17	Railroads	9.1	8.1	9.1h	8.1
2	Realty	2.5	1.7	2.5	1.9
2	Shipbuilding	127.5	102.3	118.1	106.9
12	Steel & Iron	82.6	64.9	70.8	64.9x
2	Sugar	24.1	17.5	223.6	20.4
2	Sulphur	185.7	173.1	180.4	179.0
3	Telephone & Telegraph	40.7	33.4	36.5	33.6
2	Textiles	48.5	38.2	41.5	39.0
3	Tires & Rubber	11.7	9.5	11.2	10.1
4	Tobacco	73.7	66.2	68.6	66.9
3	Variety Stores	213.7	189.8	199.8	189.8
19	Unclassified (1940 Cl.—100)	105.7	89.9	96.4	90.3

h—New HIGH this year. L—New 1940-1 LOW. R—New LOW since 1935. S—New LOW since 1938. T—New LOW Since 1929. x—New LOW this year.

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1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

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United States Rubber Co.

At a time like this, with U. S. Rubber having recently declared its first dividend in 20 years, fear of seizure of the company's Far Eastern Rubber properties, and I, a stockholder in this company since 1939, when I bought 100 shares around 31, you can appreciate my dilemma now. Should I sell in the belief that business prosperity for the Company as a result of the U. S. Arms Program and new product developments have already been discounted marketwise, last year perhaps when the stock touched 41⅝?—with the trend now a declining one in view of uncertainties and taxes? Or should I hold in anticipation of this stock's ascendancy to a new high . . . having risen more than 5 points of its low of last year . . . pinning my hopes on the Company's commercial production of synthetic rubber and reclaimed rubber—the peak of defense orders yet to come and the full potentialities of new mechanical rubber products still unrealized? Please give me your advice on what action would be most advisable now.—Mrs. S. J., St. Louis, Mo.

Earnings of U. S. Rubber Co. increased to $3.58 per common share as compared with $2.91 for the year 1939. Consolidated net sales of $228,988,780 for 1940 after deductions were about 17 per cent more than for the year 1939. Taxes have shown a rising trend since 1934 when $7,670,000 representing direct taxes increased to $26,004,002 for the year 1940. It was not necessary to provide for excess profit taxes in 1940 because the invested capital base is more than $150,000,000, which permits taxable income of more than $12,000,000 in the United States before the tax becomes operative. Net current assets of $82,545,272 showed an increase of $8,035,398 for the year and the ratio at the close of the year was 3.1 to 1. The plantations of the company consists of approximately 132,000 acres of which 102,236 have been planted and 89,380 are mature. Of the matured acres 62,059 are in the Netherland East Indies and 25,844 are in the British Malaya. Of the consolidated net income of the company transferred to earn surplus for 1940 $2,054,595 or 18 per cent thereof was derived from the plantations. Capitalization of the company does not appear too heavy and at the close of the year was represented by funded debt of $41,067,000, a net reduction of $1,077,000 for the year. 651,091 (non redeemable) shares of 8% non-cumulative preferred stock par value $100 per share and common stock $10 par of 1,736,092 shares.

Practically all of the products manufactured by the U. S. Rubber Co. have shared in the increased volume of business in 1940. Tire business increased with the production of automobiles, rubber footwear business aided by weather conditions and mechanical rubber goods sold in greater quantities due to improved industrial activity. The company is also an important supplier of products for defense activities which include tires, rubber footwear and clothing, rubber covered wire, bullet sealing gasoline tanks for airplanes, heated aviators' suits, various rubber parts for battleships, tanks, airplanes and other military equipment. U. S. Rubber Company has obtained the greater proportion of total sales, in recent years, from miscellaneous products rather than automotive equipment. A substantial block of the stock of this company was acquired by the duPont interests in 1928 and since that time the operations of U. S. Rubber Co. have gone through a period of consolidation and reorganization eliminating many unprofitable and sulplus plants to the point where earnings have shown a substantial increasing trend in recent years. It has been found over a period of years that approximately 50 per cent of the manufacturing costs of companies in this field is accounted for by raw materials with crude rubber accounting for about two-thirds. These percentages, of course, fluctuate with raw material prices and while for the year 1941 there may be sharp fluctuations in prices this company is aiding in the acquisition of a reserve supply of crude rubber in the United States. It has increased its

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facilities for the production of reclaimed rubber and is devoting a large part of the time of its extensive development and laboratory staff to the vital study of production and use of synthetic rubber.

All in all we feel that your investment in U. S. Rubber Co. is worthy of retention at this time. We do not feel that its current price has dis counted all of the possible earning power of this company and feel that the future, barring unknown factors such as taxes and actual hostilities in the Pacific augurs well for a continuation of the improving trend in earnings.

Commercial Solvents Corp.

What is your reasoning behind the fact that Commercial Solvents continues to scrape bottom in the face of rising earnings? My shares (125) cost me 33½, and while I am satisfied with the stock's income, the paper loss I show on this stock offsets its income advantages. Are fears of higher taxes the dominant negative factor? Are raw material prices of corn and molasses rising? Does the Company have a large supply of these raw materials at low cost? To what extent do rising earnings reflect the demand for solvents used in explosives? Is the rising demand, new uses and substitution of plastics for metals bolstering sales volume of commercial alcohols? Do your analysts believe that Commercial Solvents will move vigorously marketwise with clearing of uncertainties one way or the other this Spring?—F. M., Dallas, Texas.

In the year 1940, net sales of Commercial Solvent Corp. totalling $15,-844,930 showed an increase of 9.4 per cent over 1939. Net earnings for the year were 90 cents per share as compared with 61 cents in 1939. These results are quite favorable in view of the increased Federal taxes of $441,636 of which $354,636 was represented by increased income tax and $87,000 by excess profits tax, total taxes equivalent to 26 cents per share. The financial position was improved by payment of the $1,000,000 bank loans during the year. At the close of the year total current assets were $14,338,442 as compared with total current liabilities of $1,604,672, or a ratio of 8.9 to 1 as compared with a ratio of 5.4 to 1 at the close of 1939. Cash alone at the close of 1940 was in excess of total current liabilities. Capitalization of the company is relatively simple as there is no funded debt or preferred stock, and only 2,636,878 shares of common stock without par value outstanding.

In the annual statement of the company it was pointed out that the high rate of sales established in the Fall of 1939 which carried through the main part of 1940 are expected to continue at least during the first half of 1941. By investing $602,440 in new manufacturing facilities during the year 1940 the company feels that they are in a position to handle an increased demand for their products, the sales of which are continuing to expand aided by a conservative advertising program which has resulted in a steady increase in volume and profits. Virtually all divisions of the company are improving while the largest potential outlet is for the new product known as Solvamin which is a revitalizer used by millers to put back into flour those healthful products which were lost in milling and processing. Anti-freeze products have been increasing in use and have met with a favorable public response. The policy of selling rye and bourbon whiskies and beverage spirits to a limited number of well established rectifiers has been continued throughout the year and their manufacturing program is based upon the requirements of these selected customers. The research and scientific development of new products both in the chemical and biological field have been expanded during the year and continued work along this line is forecasted over the near term. The company is well established in this field and it is believed that it will produce an increasing amount of profits. The inventory of molasses and other commodities appears to be sufficiently large to take care of current needs and should result in reasonable profits. The company is one of the largest producers of ethyl, butyl, nethyl and amyl alcohols, as well as all of their derivatives and aceytone and operations cover a rather wide field, in view of the international situation we feel that operations will continue to expand but with the completion of the European conflict operations may again, barring tremendous strides in diversification of products and strengthening of trade position, revert back to the competitive position of former years.

Excess profits taxes on an average earnings base allow a credit of 49 cents per share while on an invested capital base 54 cents per share is allowed. Consequently earnings in excess of these amounts will be increasingly vulnerable to the excess profit taxes and, as brought out above, could take a large part of earnings. It is estimated that earnings for the year 1941 will show a good improvement over 1940 and may approximate $1.25 per share unless increased tax burdens should be heavier than is thought likely. While in recent years the stock has not enjoyed dynamic market performance, we feel that it is worthy of retention. A dividend of 25 cents per share, the first since 1937, was paid in December, 1940, and we look for further distributions during the year 1940.

R. J. Reynolds Tobacco "B"

Would you advise me to relinquish my 50 share investment in Reynolds Tobacco "B" regardless of the fact that I paid close to double its current price some years back? Are hopes for material market appreciation and higher income impossible of realization for the duration of the present "all-out" defense emergency? Is sales volume being maintained at 1940 levels—being exceeded now? With the advantage of low cost inventories of tobacco leaf plus rising volume stimulated by increasing purchasing power is it probable that higher taxes may be substantially outweighed? How do sales of Camels now compare with Reynold's cigarette competitors—and in comparative costs, including advertising, raw material prices and other overhead expenditures? Will you kindly give me a balance sheet of the points in favor of retention and those against, plus your advice? Thank you.—J. J., Easton, Pa.

R. J. Reynolds Tobacco Co. for the year ending December 31, 1940, earned $2.55 per share as compared with $2.56 for the year 1939. Net sales last year were $292,039,070, the best since 1937 and compared with 1939 sales of $276,730,009 which represented an increase for 1940 of 5.5 per cent. A widening of the profit margin was noted during the year 1940 based primarily upon the lower prices paid for leaf tobacco during the year 1939 which caused a profit on an operating basis of $37,648,907 or 12.9 per cent of net sales. The operating profit of 1939 was $34,696,115 or 12.5 per cent of net sales. The tax burden of this company, however, shows a different picture, being 43.9 per cent over the 1939 total. Total taxes paid during 1940 were $10,893,723 as compared with $7,569,917 in the year 1939. The major portion of this

increase was due to higher Federal rates and only **$106,256** was represented by the excess profits tax. It is believed that sales during the year 1941 will show an improvement over 1940 but it is doubtful whether, in view of the ever increasing tax burden for the industry, that net profits will show any marked improvement.

It has been reported that the company has been successful in shipping virtually all of its tobaccos which have been stored in Turkey and Greece. These tobaccos on hand and in transit are believed to be ample for a number of years usage. Cigarette paper which has been largely imported is held as an inventory in sufficient quantities for an extended period of time. Through recent experiments the company has been able to secure an equally fine paper manufactured in this country and in sufficient volume to take care of requirements without any dependence upon foreign sources.

Sales of the company's products such as Camel cigarettes and Prince Albert Smoking tobacco have held up remarkably well in recent years. Other brands of smoking and chewing tobaccos are, of course, produced but the two mentioned are the most important as to sales and profits. The company's products are well established in their respective fields and on that basis the company occupies a dominant position, being one of the three largest producers in the industry.

Capitalization at the close of the year showed notes payable (bank loan) of $16,000,000 which is a reduction of $2,000,000 during the year 1940. There is no funded debt or preferred stock. Common stock of a $10 par is outstanding to the extent of 1,000,000 shares, while class B common, also $10 par, is outstanding to the extent of 9,000,000 shares. The current financial position of the company is satisfactory.

While we feel that sales will continue their advancing trend into 1941 we do not see anything in the picture which would forecast a substantial improvement in earnings at this time. Along the same lines we do not see anything that would cause a sharp upturn in prices for the company's stock as such is not a characteristic of this type of security. Investment stocks as a rule have a relatively stable market performance and while there has been a declining tendency for market quotations on this stock in recent months we feel that such has been caused by the failure of the company to increase earnings in view of the expansion of business in general. In view of the strong financial position and excellent management we feel that barring excessive tax burdens that dividends will be continued at

current rates and that the future warrants retention of the stock at this time.

Barnsdall Oil Company

In the opinion of your analysts, is it advisable to average on Barnsdall Oil at its current price, considering the fact that I now own 100 shares of this stock bought at 17? Would you classify Barnsdall among today's outstanding low-priced opportunities? I should like to know how you appraise the oil outlook in relation to our Defense set-up and the possibilities that the present war will be of long duration. Are earnings for Barnsdall currently exceeding 1940 levels? What was the ratio of earnings for this Company when it sold in the 30's? Are low prices on the West Coast sufficient to cut in importantly on earnings despite higher volume? What is the present status of all of the Company's reserves . . . operations in its major fields? I will base my decision on your analysis and advice, and will therefore appreciate an early reply.—J. S., Louisville, Ky.

According to the further steps by Barnsdall Oil Co. in the disposition of its interest in Bareco Oil Co., the future is substantially improved. The Bareco Oil Co. which represented the refining and marketing division originally a direct part of Barnsdall Oil Co., has been a source of losses for the company for some time. With the activities now limited to the development and production of crude oil it is believed that the company will show a decided improvement in the future. During the year 1940 the company completed approximately 89 new wells of which approximately 77 were productive. At the close of the year the company had a total of net producing wells totalling 2,074 and net operated acreage of approximately 78,013 acres while unoperated acreage totalled 470,260 acres. From this it can be seen that the company's expansion possibilities are substantial.

At the close of 1940 bank loans were outstanding to the extent of $7,562,757. There was no funded debt or preferred stock but 2,251,017 shares of $5 par common stock. Total current assets of $5,311,393 compared with current liabilities of $1,279,670. For the year ending December 31, 1940, the company had earnings of 97 cents per share as against 76 cents per share for the year 1939. It is believed that 1941 results will show an improvement over 1940 for several reasons. The elimination of the drain by the Bareco properties upon the earnings of Barnsdall Corp. is expected to be favorable. The increased importance of mechanized forces in our rearmament program is expected to have an even greater importance and show a benefit to earnings. While crude prices remained at about the same level in 1940 as they were in 1939 it is expected what with increased consumption, prices may show a hardening tendency which would allow an expansion in earnings for this company. The dividend policy of the company in the past have been rather liberal and we feel that they will continue to pay out the major portion of earnings in dividends. As a result we feel that the stock is worthy of retention offering a good possibility to participate in the earnings expansion which we feel will come in the oil industry.

Phelps-Dodge Corp.

I have been worried by the slide in the market value of Phelps-Dodge from the price of 35⅞ earlier this year. Perhaps your analysts can allay my fears with a succinct report on the Company's income and appreciation prospects now . . . with definite advice as to whether or not this stock should be held or sold. I paid 34¾ for my 60 shares. Are costs expected to continue higher? Is the labor situation considered a threat to continuous operations? Doesn't the current price of copper offer sufficient leeway for higher costs and taxes with room for higher net profits? How is Phelps-Dodge being affected by the U. S. Government's contract for the purchase of 100,000 tons of copper? How do the Company's resources of the red metal stand now? Are mined supplies ready for shipment near exhaustion? What about regular commercial markets for the Company's copper under U. S. priorities regulation?—N. Mc., Syracuse, N. Y.

Phelps-Dodge Corp. after providing for depreciation but before depletion reported consolidated net income of $12,603,980 which is equivalent to $2.49 per share on the common stock as against $2.42 per share in 1939. It appears that increased costs and taxes took a large part of the gain of approximately $4,442,718 in sales over 1939 results. Taxes paid during the year, including a provision of $810,000 for excess profits tax amounted to $7,053,000 which compares with $5,523,000 for the previous year. These taxes represented $1.39 per share for the year. Excess profit tax credit on an earnings basis is $2.11 per share before depletion, while invested capital base credit is $2.68 per share. Therefore it can be seen that earnings in excess of these amounts will be increasingly vulnerable to excess profit taxes as we now see them. Increase of other tax burdens, however, would add to the vulnerability of this company. Capital expenditures during the year were approximately $7,500,000. From 1937 when work started through the year 1940 expenditures on the Morenci properties have amounted to approximately $13,000,000. To complete the project it is estimated that approximately $21,700,000 additional funds will be expended mostly in 1941 according to present schedules. The necessary funds have been secured principally from the proceeds of the convertible debenture issue and from depreciation accruals. The contemplated production for this mine is about 80,000 tons per year and it is expected to be in operation by the end of the year.

The capitalization of the company is relatively simple and not burdensome. The convertible 3½ per cent debentures of 1952 are outstanding to the extent of $16,855,600. There is no preferred stock while common stock of $25 par value is outstanding to the extent of 5,071,260 shares. The financial position was strong with total current assets at the year-end of $62,344,777 as against total current liabilities of $15,576,066. Cash alone was approximately double the total liabilities. During the latter part of the year greater monthly tonnages were fabricated than ever before in the history of the company and in view of the increasing demands for copper very small stocks were on hand in excess of working stock required to carry on its own operations. It is felt that the Government is proceeding along favorable lines and protecting domestic producers in the supplying of copper for fabricating purposes.

While earnings have fluctuated rather widely in recent years it is believed that the net for the first half of 1941 will be in the neighborhood of $1.40 per share and that dividends may run slightly ahead of those for 1940. Sales and deliveries during at least the first half of 1941 in all probability will exceed the year earlier totals and since prices are higher they should offset higher tax burdens and increased wages. In view of the favorable operating sta-

tistics of the company which is a low cost producer we feel that the stock has a favorable future and worthy of retention at this time.

Youngstown Sheet & Tube Co.

Do your analysts anticipate for Youngstown Sheet & Tube, a return to its high of 48¼ recorded last year, under existing conditions? I bought 50 shares which cost me 42¾, primarily as a speculation on the benefits which would accrue to Youngstown Sheet from industrial activity growing out of the U. S. Defense Program. Despite the large gains on earnings in 1940, I understand the Company participated only to a small degree in direct orders for defense. Does this mean that the full impact of U. S. Defense orders on top of types of orders received last year are yet to be realized in terms of higher earnings this year? With its present facilities, can the Company handle a sufficient quantity of additional business to exceed earnings of 1940? Or, has the point of diminishing returns been reached? How do costs stand now in relation to last year? How high is it estimated that per share earnings on the common rise before being subject to excess profits taxes?—M. Z., Toledo, Ohio.

In the forty-first annual report of the business and operations of Youngstown Sheet & Tube Co. and subsidiary companies on a consolidated basis, it is noted that net sales for the year were $143,054,028, an increase of approximately 22 per cent over 1939. On an average base rate of operations for the first half of 1940 were 67.3 per cent of ingot capacity, second half 96.7, while for the year it was 82.1 per cent as compared with 64.4 per cent for the year 1939. The aggregate net profit after interest charges and depletion was $10,815,468 or $5.96 per common share after payment of regular preferred dividends as compared with $5,004,484 or $2.50 per common share in 1939. Interest charges on the funded debt approximated $3,249,000 while dividends paid were $825,000 on preferred and $2,090,752 on the common. The capitalization of the company consists of $82,500,000 of funded debt, 150,000 shares of 5½ per cent cumulative $100 par preferred stock and 1,675,008 shares of common stock without par value. The financial position at the close of 1940 remained characteristically strong, with total current assets of $95,517,039 compared to total current liabilities of $17,139,576. Giving a ratio of 5.57 to 1, with cash and Government securities alone in excess of total current liabilities, working capital is strong.

During the year 1940 approximately $4,500,000 was expended on property acquisitions, improvements and betterments. Contemplated expansion programs for the year 1941 forecast an increase of approximately 60,000 net tons to the company's annual ingot capacity in the Indiana Harbor Works, an increase of approximately 200,000 net tons in the Campbell Works as well as other improvements. As for the adequacy of capacity of the steel industry it does not appear likely that requirements of the American steel industry by England and Canada for their war needs and our own country for its defense needs will exceed about 25 per cent of the present ingot capacity of the steel industry in the United States. At this time there are substantial orders on hand throughout the steel industry and in some cases companies have sold out their capacity in many products well into the second quarter of 1941. Incoming business continues to forecast capacity operations for some time to come.

On an average earnings base the company has an estimated excess profits tax credit of $3.44 per share while on an invested capital base the credit would be approximately $7.95

per share. Consequently it would appear that earnings could increase substantially over 1940 before being vulnerable to the excess profits taxes as they now stand. If such tax burden does not become too burdensome and with operations in the steel business at virtual capacity, we feel that earnings will warrant a continuation of liberal dividends over the near-term. Therefore, we feel that your stock is worthy of retention at this time in moderate amounts in diversified portfolios.

Great Northern Railway Co.

Would you say that Great Northern Railway at its current price discounts a continuation of the high rate of industrial freight traffic for some time to come? Is a heavy drain on earnings resulting from new equipment costs and maintenance expected in the near future? Is it probable that dividend disbursements will continue modest in relation to earnings with a view towards further strengthening the Company's financial position and to reduce obligations. My 75 shares cost me 23, and I am anxious to know whether this might not be the opportune time to sell before adverse factors begin to make themselves felt. Incidentally, have Spring wheat shipments begun . . . how large a source of freight revenue should they prove this year? What other type of freight other than iron ore, growing out of the U. S. Defense Program is Great Northern in a position to bid for—with what competition?—O. M., Baltimore, Md.

The early months of the year normally produce a loss from operations and for the first two months of 1941 Great Northern Railway Co. had a net operating loss of $2,152,987 as compared with $2,229,904 for the comparable period of 1940. It has been reported that traffic in the Northwest in the territory served by this road shows an increase in volume of approximately 12 per cent over last year. The transportation of grain is not moving in the volume which might be expected but other traffic is showing an improvement. When it is realized that the iron ore fields in Northern Minnesota, fabulously rich and extensive, are as important to the American steel maker as are those of Norway, Sweden and the Ruhr, to European nations one can visualize the vast importance of the increasing tempo of steel mill activity to the earnings of this company. Approximately 60 per cent of the tonnage carried by Great Northern Rwy Co. is represented by ore shipments. In addition to the transportation of ore the company taps the richly productive forests of the Pacific northwest as well as the wheat fields of North Dakota, Montana and Minnesota and the Pacific Coast which furnishes much of the fruit, vegetables and canned fish for the nation. In addition the terminals in California and Minnesota give the road direct ingress to San Francisco and Chicago through connections and—through part ownership of the Chicago Burlington & Quincy R.R.—a direct route to the Gulf by way of Chicago, St. Louis, Mobile & New Orleans is held. The breadth and character of the road's effective territory contributes substantially to traffic diversification. It is a little early for the Spring wheat shipments as harvests do not start for about another month and then increase substantially up to the harvest of the summer wheat or spring wheat which is completed along in September. Ore shipments upon the opening of the Great Lakes Navigation should show a substantial increase over last year caused in part by the high rate of capacity of the steel industry as a whole and the belief that stores of ore have become relatively small at the mills.

The capitalization of the company is not considered particularly burdensome. Giving effect to the refinancing of July 1, 1940, outstanding funded debt was approximately $320,000,000 on which earnings were equivalent to approximately 1.72 times the $14,000,000 annual quota of bond interest and lease line rentals. In 1939 the coverage was 1.61 times. These results are in the face of increasing operating costs, taxes and maintenance expenditures which were witnessed in 1940. The obligations and senior liens on a combined basis are equal in principal amounts to only $39,000 per mile of line operated. In face of the bond maturities last year the financial position of the company remains favorable. As of December 31, 1940, cash alone was in excess of total current liabilities and long term maturities due within six months were only $1,273,-000.

At this time it is hard to visualize, with the exception of possible prohibitive taxes, any reason why Great Northern Rwy. Co. should not experience improved results in the year 1941. As long as the option of invested capital exemption is allowed for excess profit taxes no threat is seen from this source but, of course, the rise in normal corporate taxes to a flat 24 per cent would add to their burden. Last November, when a 50 cent dividend was paid, it was stated that "It is the desire of the management to continue regular payments if future earnings justify" and another dividend of 50 cents per share was declared, payable April 1st. In the past the stock of Great Northery Railway Co. has enjoyed volatility and we see no reason why in the future it should not continue to have impressive market movements and therefore at this time we counsel the retention of holdings in this company.

Chicago Pneumatic Tool Co.

I can't help but feel that there is something we stockholders don't know about Chicago Pneumatic Tool of great enough importance to keep this stock down around 13 despite the fact that earnings for 1940 equalled $3.01 per share as compared with 33 cents in 1939. I have 200 shares acquired at 31. I have gotten my fill of news about the tremendous orders the Company has received from airplane and ship building industries as a result of the National Defense Program. . . . I know that domestic sales are the largest in the Company's history. What I want to know is why doesn't this stock respond marketwise . . . with all the good news and especially after declaration of a dividend which is the first since 1931 I will be grateful to you for information regarding the Company's tax position—requirements of senior issues in the Company's capital structure which must be met—status of costs—properties in Germany, Scotland and England, in other words all data which you believe essential to me for a complete evaluation of the appreciation as well as income possibilities for Chicago Pneumatic Tool.—T. D. M., Savannah, Ga.

Chicago Pneumatic Tool Co. declared an initial dividend of $1.00 per share on the common stock payable April 1, 1941, to stockholders of record of March 20. This is the first dividend paid on the common stock since it was issued in January, 1929. Considering the possible charges prior to dividends on common stock, we find that the company does not have any funded debt and as of December 31, 1940, there was 65,529 shares of $2.50 prior preferred stock and 181,135 shares of $3.00 convertible preferred stock, both cumulative of no par value, ahead of the 335,320 shares of no par common stock outstanding. Annual dividend requirements on the $2.50 prior preferred stock is $165,026 per annum

on the $3.00 convertible preferred stock $543,180. At the close of 1940 the consolidated financial statement covered only domestic companies. Investments in foreign subsidiaries not consolidated are carried in the form of capital stock amounting to $1,475,894. From information reaching the company it does not appear that the foreign subsidiary companies have suffered any extensive losses resulting from conditions of active warfare prevailing in sections where they are located. There has been some discussion concerning the redemption of the prior preferred stock but it was brought out by the company that they did not deem it advisable at this time. Reasons given were that it would cost $55 a share to redeem while they only received $48.25 for it and if so redeemed it would reduce the amount of capital invested and thereby a strong possibility of increasing excess profits tax liability. The tax question as pertaining to this company does appear slightly unfavorable. On an average earnings base, earnings in excess of 86 cents a share would be susceptible to such a tax. On an invested capital base, however, earnings in excess of $1.32 per share would be vulnerable. Therefore in view of the fact that 1940 earnings were $3.01 on the common stock as against 33 cents for the year 1939 the company is rather vulnerable to the excess profits tax.

Past action of Chicago Pneumatic Tool stock has not been exceptionally outstanding but if we take the movements back for some time we find a more optimistic picture. In 1933 the average price was approximately $6 a share, the same in 1934 and in 1935 it started to advance. This advance continued throughout 1935 and 1936 and into February, 1937, when it reached a high of 34. Then, of course, in accompaniment with the sharp decline in security values it reacted down to approximately $7 per share, subsequently rising to approximately $20 a share in January, 1939. Since that time it has been fluctuating back and forth between these last two levels. Earnings in 1938 of 16 cents per share, 33 cents in 1939 and $3.01 in 1940 would indicate that with a more optimistic tone in securities that this stock should have a favorable performance. Sales as a general rule are a prerequisite for earnings and earnings an essential to sustained price movement.

According to Mr. Jackson, the President of the Company, the business derived from light portable tools developed in recent years for the aircraft industry are increasing and supplementing the demands for other lines normally produced by the company. Therefore it is our opinion that with the increasing tempo of our rearmament program and business in general that barring unforeseen difficulties that this company should experience better results in 1941 than in 1940. If such materializes we feel that a liberal dividend policy will be followed.

The Squeeze in Import Commodities

(*Continued from page* 19)

demand does not compete.

Third, essential materials (according to the National Industrial Conference Board as follows): "Those which, although not now considered as either strategic or critical, might become so during an emergency and which must therefore be kept under careful surveillance." Copper and sugar are but two of the import group in this class.

Every effort is now being made by Washington to stimulate the movement of such strategic materials as rubber and tin to this country. Coast-plying boats are being put into service on ocean hauls, with lake steamers replacing them on their routes. Many steamers working in the Pacific are putting in at San Francisco and quickly returning to the Orient instead of making the longer haul through the Panama Canal and moving up the Atlantic Coast. The raw materials are being shipped east by rail. This recalls the "Silk Express" of World War I. Rubber and tin are also being given shipping priority over such commodities as black pepper, which is one reason why some seasoned commentators feel that—in spite of a nearly two years' supply in this country (which incidentally is largely in four strong hands)—this nonessential commodity may experience sharper price repercussions without federal criticism than most more important staples.

This country will probably need some 435,000,000 pairs of new shoes in 1941. It will take between 22,000,000 and 23,000,000 hides to produce these, of which 6,000,000 must come from outside the United States. Couple this with the lighter calfskin importations from countries such as France necessary for uppers and one has the ingredients of a situation which will probably cause shoe manufacturers more than their share of headaches. This will be aggravated since it is difficult for them to translate fully raw material price advances into the finished shoe and secure adequate consumer sales response. Both leather manufacturers and shoe producers have built up inventories somewhat, but further progress on this score could be looked for. This is particularly due to the fact that seasonally domestic

cattle hides taken off in summer slaughter are of superior quality to winter types. Shoe manufacturers prefer summer hides because of less grubs and pock ticks on the skin. American shoe manufacturers are adamant against use of ticky leather.

Majority of our hide importations comes from Argentina. Their Frigorifico steerhides are of superior quality to domestic grades, bringing $1\frac{1}{4}$ cents per pound premium. Any further diversion of boats from that route or damage by raiders thereto will be seriously felt.

Chocolate manufacturers are eyeing the freight situation from the African Gold Coast—source of more than 60% of the world's cocoa crop—with distinct alarm. Before the war broke out, freight from there to the United States was $9 a ton. In January, 1941, it rose to what seemed an incredibly high figure of $20 per ton. Recently, as high as $44 a ton was paid for the same freight space. Although cocoa is most nutritious it is also a non-essential, judged by Government standards. Hence, shipping priorities will play no small part in this picture. Thus far, cocoa arrivals have been substantial enough to cope with extremely large consumption here. Chocolate manufacturers are working at capacity to account for this. Their inventory (six to nine months' supply) is considered quite low. If Africa is cut off as a source of our supply, despite a substantial Bahia output from Brazil—even taking all of this crop would not fill American requirements in full. Shipping losses of specific boats destined for England carrying cocoa cargoes are not obtainable, although some are reputed to have taken place. Until lately, boats were loaded with cocoa at the Gold Coast, nosed towards our shores, unloaded there and refilled with war material for England. Boats were then sent up to Canada to await convoy to Great Britain. When and if they arrived in England, the boats were then reloaded with goods for Africa. Owing to delays and losses, American vessels are taking on a larger part of the shipping chores from Africa to the United States direct. However, these boats are really insufficient in number to cope adequately with the situation.

Certainly, there is no shortage of cocoa in the world. However, during the last war, cocoa was 2c per pound in Africa and 20c per pound in New York, because of shipping difficulties. Right now, cocoa in Lisbon is bringing 20c per pound, as compared with less than 7c in New York. The candy manufacturer has only one alternative with his single-priced line; namely to cut down the size of the chocolate bar slightly when and if raw material prices rise too fast on an uncovered inventory. This is a last resort, however, and one a producer is reluctant to utilize until necessary.

Summing up, inventory stockpiles of raw materials required here that come from far-off lands are not yet burdensome. Many consumers still fear restriction by the Government to a maximum of six weeks ahead, with concentration of additional reserves in federal hands. Others are not yet convinced that recent price advances—largely reflecting freight and insurance increases—are justified. It might be borne in mind that some non-military essentials are needed more than the O P M's strategic commodities. Because of shipping priorities on rubber and tin and the lively possibilities of a tenderbox flaring up in the Far East, it would seem that pepper grinders and chocolate manufacturers might well supplement their inventories at current moderate prices, if possible.

Changing Investment Status for Equities, Preferreds and Bonds

(*Continued from page* 12)

in the World War period. Second, common stocks are much more widely accepted as investment media now than they were a quarter of a century ago. Third, leading corporations are far more solidly entrenched in trade position and financial strength now than in World War days. Fourth, the average corporation is subject to a slower rate of growth than twenty-five years ago, with proportionately less need for re-investment of surplus earnings in capital facilities, and for these reasons—as well as the reason of public policy—the tendency is to distribute an increased proportion of profits in dividends to stockholders.

Thus while the underlying trend of price-earnings ratios is unquestionably downward, it appears probable that their average through this war will be somewhat higher than in the World War. How much higher, none can predict. It is certainly true that the average investor is far more keenly aware of the evil war and post-war contingencies—social and economic—than he or she was during the World War. On this score, it would seem logical to reason that price-earnings ratios would already have slumped to World War levels if there were not tangible reasons for *some* differential in favor of today's market.

It is perhaps pertinent to have a look at the following contrasts today: General Foods, priced at 13 times 1940 earnings per share and yielding 5.5 per cent on the probable $2 dividend; United States Steel, priced at about 6.5 times 1940 net per share and possibly yielding about 6.9 per cent if $4 is paid in dividends—$3 was paid last year out of earnings of $8.84—or 8.6 per cent if as much as $5 is paid; and Worthington Pump, priced at 3.5 times 1940 net per share and unlikely to pay any dividend, although preferred arrears probably will be cleared.

The reasons for these differences are not at all mysterious. General Foods has a probable continuity of earnings and dividends far more assured than have the other two and for this reason properly sells at a higher price-earnings ratio and lower yield than the others. U. S. Steel is far superior to Worthington in every respect, although both are "prince and pauper" stocks. Hence, when both companies are earning money, it tends always to command a higher capitalization of earnings than does Worthington.

Considering the uncertain continuity of earning power, on a theoretical investment basis Big Steel is not cheap at present price-earnings ratio and yield, and there is not even a semi-investment basis for capitalizing earnings of Worthington. This is not by any means to say neither can go up. They very possibly, if not probably, can. At a price, there are always speculators and speculative-investors willing to trade on uncertain and temporary earning power.

General Foods, of course, is an example of a first quality "peace baby" which is on the defensive in a war economy. Operating costs and taxes will trend higher and the extent to which higher sales will offset these adversities is problematical, as is the case in most consumption goods enterprises. So far as Federal income tax is concerned, the writer estimates that General Foods last year would have earned about $2.50 a share on a 30 per cent rate, against $2.77 actually earned; and about $2 on a rate of 42½ per cent, equal to the present British tax. If capitalized at the average price-earnings ratio of the years 1935-1939, net of $2.50 would be worth a market price of 38 and $2 would be worth a price of 31. The current quotation is 36 and, taking into account both 1941 earnings potential and financial strength, the dividend appears in no present danger. Of course, taxes are not the only factor involved, it is improbable that price-earnings ratio through the life of the war economy will be as high as it averaged in 1935-1939 and the citations presented here are not a forecast of market potentials.

The bar chart accompanying this article pictures at a glance some very interesting and very wide variations in the performances of various security groups during the war to date. The largest net gain has been in defaulted railroad bonds and next largest in speculative preferred stocks. Largest net losses for the war period have been, in the order named, in rubber stocks, office equipments, utilities, "stable income" stocks and building shares.

While Government bonds and high grade preferred stocks have had net gains as compared with prices at the close of August, 1939, this is less pertinent than the fact that both groups — as remarked earlier in this article—appear to have "topped" in the closing months of 1940.

Although speculative bonds and preferred stocks have shown their heels to the general run of equities and although their underlying bull trend probably will be maintained, it is well to remind ourselves that their ceiling can not be unlimited. In many of these instances earnings are just as temporary as earnings on "war baby" equities and the rate at which war earnings are capitalized probably will continue far under that at which equal peace earnings would be capitalized.

For instance, the Dow-Jones average of defaulted rail bonds today —despite rise of 91 per cent for the war period—is only 15.39 as compared with high of 35.89 reached in the spring of 1937. And although the railroads this year will cover bond interest by a substantially wider margin than in 1937, second grade rail bonds on an average are today some 6 points under 1937 highs.

Again, such speculative issues as American Woolen $7 preferred, Budd Manufacturing $7 preferred and General Steel Castings $6 preferred probably will earn more per share this year than in 1937. But taking recent highs, Woolen's top to date of 61⅜ compares with high of 79 in 1937; Budd's high of 61¾ compares with 1937 top of 98; and General Steel's top of 65¼ compares with 1937 highs of 88.

In short, the United States may not yet be in the war—but the security markets are. You stand a good chance of being a victim of optical illusion if you use pre-war reasoning to arrive at the conclusion that most securities "look very cheap" on earnings.

Utility Death Sentence Produces New Type Speculation

(Continued from page 31)

considerably increased facilities and greater operating efficiency. There is an admitted need for more power facilities and with expansion facilitated by the sale of other assets rather than a dilution of equity through the issuance of senior securities, preferred shareholders would then own better and more profitable properties which would be capable of greater earning power and would not be called upon to lose any advantage in the capital structure of the system.

The possibility of satisfactory equity sales in the future is contained in the S E C's contention that the better part of utility financing shall be through the medium of equities. This would mean that the

Commission will do all in its power to facilitate the refunding of maturing indebtedness, not by the issuance of long term obligations but by the sale of equities. The market is not in a satisfactory position to absorb any quantity of new public utility equity offerings due in great part to uncertainties over the Commission's possible position. With that body more lenient toward utility equity sales either for the purpose of refunding senior obligations or to conform with the Public Utility law, it is not unlikely that a fairly strong utility market may later develop. At any event, any time that a debenture or a bond is replaced by common stock, it improves the liquidating and earnings position of existing equities by the amount of prior obligations which is displaced.

Even to acquire new money for improvements where no assets need be sold, it is probable that the Commission's lead will be followed and an attempt to finance the requirements will be made by selling preferred or common stocks and thus stimulate the utility stock markets with benefit to old as well as new securities of the equity type.

It has not been meant to infer that we are on the verge of an all-out bull market in utility shares for there are many adverse factors present which are out of the control of any Government agency at the present time. Specifically, these factors are rising state and municipal taxes and higher labor costs. Rates, of course, can either stand still or head downward in spite of any set of circumstances. Thus, no such earnings as in earlier years of the century are likely for any of the utility companies, either holding or operating. What is meant to point out, however, is that many of the preferred stocks of the top holding companies have an excellent asset coverage which is more often than not considerably in excess of prevailing market quotations for the shares.

There is, of course, a certain degree of speculative risk involved due to the fact that many of the plans for reorganization are only tentative and subject to considerable legal argument before they are made effective. Even after that point there will be the time required to negotiate the sale of the undesired assets and other steps which will be necessary to complete the plan. An offset against these uncertainties is the assurance that some plan or another will eventually be enforced and that all of the plans will definitely provide for the integration of properties and simplification of the capital structure. Moreover, these assets which are to be disposed of are not likely to decrease in value as time goes on so that their eventual distribution to the preferred stockholders may well be at an even higher rate than would be possible if the distribution were to be accomplished today.

Undeniably the shares must be classed as speculative but not in the usual sense for there is considerably more information available on them than is the case in ordinary speculative situations and many of the past uncertainties which helped drive their market values down to previous low levels have since been clarified.

Although the case of the common shares of the holding companies is not quite so well defined as is that of the preferreds, the S E C has indicated that even these equities will receive consideration in the event of voluntary dissolution. However, what the consideration may be is problematical and contrary to the case for the preferred shares, assets in liquidation are currently available for very few holding company common stocks at the present time.

Another Look At . . .

(*Continued from page* 33)

apparent in current quotations for the stocks. The common has by far the least to gain over the nearer term and as such has little to recommend its purchase other than the very low price at which it sells.

Oliver Farm Equipment Company

A combination of lower foreign sales and later restrictions upon the marketing of Canadian wheat helped to hold Oliver Farm Equipment Company's total sales at just below 1939 levels during 1940 despite better than average domestic sales. However, increasing operating efficiencies served to bring a larger proportion of operating income down to operating profits and despite more than a 50 per cent increase in taxes, net profit was more than double that of the previous year at $866,445.

Oliver Farm Equipment has a small capitalization—337,786 shares of no par value capital stock—and this is reflected in the earnings leverage of the shares. On an increase of approximately $436,000 in net profit, earnings per share of capital stock rose to $2.56 as compared with $1.26 for the previous year and only $0.18 a share in 1939.

The company's 1940 financial position was strong with a current asset ratio of better than 7 to 1 and cash of nearly $3,000,000, more than ample for the company's immediate needs. The present financial status of the company marks a successful termination of an effort to rebuild working capital. This same endeavor has held dividend payments in check during recent years and its achievement was marked with the restoration of such disbursements last year when $0.50 a share was paid. Long and short term notes payable amounted to about $3,000,000 at the close of the year but only about 10 per cent of this amount was short term, and cash on hand was adequate to provide for all nearer term maturities if such a step should become necessary.

It is not probable that the company will show any startling gains in sales during 1941 and, in fact, will do well to hold to last year's levels. This is mainly upon the expectation of continued restricted foreign business. Domestic sales should hold up well and perhaps improve in some lines. As a case in point, the company expects sales of its new small combine to help business, as should the new one-row corn picker and small tractor. In last year's sales were included metal bomb packing crates made for the Government, but these sales accounted for only about 1 per cent of the total and much less than that proportion of the profits.

Considering the very small capitalization and the now satisfactory earning power of the company, the shares are selling at reasonable levels. There are, however, no important pending developments which might afford the issue a highly attractive flavor, although over the longer term it is possible that some improvement will be seen in the market's appraisals of the volatile common stock.

Evaluating 1941 Profits on Defense Orders

(*Continued from page 15*)

indicated in the comprehensive survey of the aircraft industry in another section of this issue its backlogs are so enormous that a huge increase in shipments may reasonably be expected.

U. S. Steel, the possessor of the third largest defense contracts, has a better chance of higher net income this year over 1940 than does Bethlehem Steel. This is so because of a more favorable excess profits tax base. In 1940, Bethlehem Steel's estimated excess profits tax credit on an invested capital base was $12.00 a share, compared with reported net income of $14.04 a share, while that of U. S. Steel was $10.55 a share, compared with $8.84 a share earned last year. U. S. Steel on the 1941 basis of potential taxation would have shown about $7.50 a share last year. On the old tax basis, the company currently is earning at the rate of about $13.00 a share; taxes thus could be raised about $4.00 a share without lowering 1940 net. On the possible 1941 tax basis, the company still might be able to show as much as $10.00 a share for this year.

Taking still another example—New York Shipbuilding—holder of the fourth largest total of contracts, there is a strong shrinkage of profit margin in sight for it, too, but its total business on hand ($434,000,000) is almost ten times its gross billings for the year 1940, or enough for ten years of such activity as in the past year when the company earned $4.54 a share. Full tilt operations should produce big gains in gross over 1940 and some increase in earnings, too. One noteworthy consideration is that shipbuilding is so much in the public eye as part of the defense backbone that it is doubtful if a strike in the industry would be long permitted. The same, of course, would apply to aircraft. Taxes will do some heavy absorbing, as may be seen in the fact that computing on the basis of the most broadly discussed potentialities (both as to Federal normal and excess profits tax changes), the com-

pany's earnings last year would have been $3.38 a share, rather than the $4.54 actually reported.

As defense money flows into all possible industrial crevices, it is interesting to see where new beneficiaries might be. Two major industries which have received but small benefits from our armament program (the office equipment and the agricultural machinery industries) seem headed for considerably larger defense orders; if present spending plans are carried out, substantially thicker and repeatedly thicker layers of assignments will be placed on these as well as all reasonable potential takers in the entire American business structure, but profit margins just as progressively will grow thinner and thinner.

Happening in Washington

(*Continued from page* 17)

a provision which would create a waiting period and also force employers to mediate; some means of requiring unions to permit non-union men to work where there is a shortage of union men and without requiring high fees for temporary work permits, and yet at the same time not making the closed shop or collection of union dues illegal; some way of preventing strikes over jurisdictional disputes. Union fees and jurisdictional strikes have little sympathy in Washington and less with the public, but so far no workable plan has been evolved to cure them without virtually emasculating unions.

Labor leadership is divided on the proper course. Some think labor should strike while the iron is hot and that now is the time to get recognition and wage increases. Others fear that too militant action now will bring on a quick and violent reaction in the form of repressive legislation which will wipe out labor's social gains for years to come. Most of Washington political observers agree with the latter group that strikes in defense industries and unpopular and that unreasonable union demands and practices will prove to be a boomerang and that labor may soon discover it has lost most of its political support and a great deal of its power.

The Economic Balance of Power

(*Continued from page* 22)

against Yugoslavia—even if the country is eventually conquered—will be costly in delayed output and transportation of bauxite, copper, chrome ore and antimony. No matter how efficient the organization of the German-controlled Continent, however, it cannot be made into a self-sufficient unit. Conquest may have solved the problem of iron ore supply and eased the crude oil shortage, but many others still remain: shortages of fodders and edible fats, of ferro-alloys and non-ferrous metals. Above all, there is a shortage of labor, for to create a ton of synthetic gasoline ten times as many men are required as to make it out of crude oil.

The pressure for resources and the need for opening up land connection to the Near East and Africa is undoubtedly the chief motive behind the present struggle in the Balkans. But at the same time this struggle offers to the British an opportunity to keep the back door to the Continent open and to sap the Reich's economic resources by the continuous military operations.

Capitol Briefs

(*Continued from page* 17)

Farm price program is designed to raise prices of agricultural products a little, partly for political reasons, partly to stimulate production to the level of anticipated British needs. Consumers will suffer some, and the danger is that the farm prices may pyramid, resulting in considerably higher food prices which will bring demands for wage increases and higher prices for other things.

Defense bond sales program will be launched with a bang May 1 with a big propaganda campaign to catch small savings. If ballyhoo and appeals to patriotism don't sell enough, there are plans for what amounts to forced lending by having employers take a slice from payrolls to be put into defense bonds or savings stamps which can be converted into bonds.

Anti-trust enforcement is not being curtailed by the defense program. On the contrary, Congress is voting even more money for enforcement, and Thurman Arnold has big plans for grand jury investigations of many industries. Threats of prosecution are bringing consent decrees on a wide scale, and observers note that very frequently such decrees impose restrictions on business of much greater severity than the laws themselves. Thus Arnold no longer feels any need for new legislation amending the anti-trust laws.

T N E C report was considered a dud because its recommendations were not novel and were far less sweeping than was anticipated when the monopoly investigation began. But by themselves the proposals are drastic enough, and would alter many business practices and impose new government controls. They may be overlooked by Congress for a while, but legislation to apply them all is being drafted and may get through one at a time.

Social reform is not smothered by national defense. A strong government lobby is at work trying to use defense as a reason for new legislation giving the Federal government more powers over business activity. Samples: extension of the social security system, health insurance, regulation of causes of occupational diseases, conservation of natural resources.

Tax legislation is being drafted but won't be enacted for a couple of months or more. Processing taxes and the undistributed profits tax are being discussed again, but the next bill probably will be confined to upping excess profits and normal corporation and individual rates. Business interests will fight to retain recognition of a fair method of figuring normal profits, regardless of what excess profits taxes are imposed, on the theory that the normal rates will continue for a long time to come. A general sales tax is not expected this year.

For Profit and Income

(*Continued from page 35*)

craft is the manufacturer. . . . Output of magnesium by Dow Chemical will be doubled this year. . . . Manufacturers of standard price products such as confections, foodstuffs, soap, etc., may resort to smaller packages in lieu of raising prices to offset higher costs. . . . First quarter earnings of National Biscuit will be about the same as a year ago—38 cents for the common stock. . . . Earnings of General Foods in the first quarter were well in excess of dividends. . . .

New Records for Westinghouse Electric

At the annual meeting of stockholders of Westinghouse Electric, it was announced that today the company is employing more people than at any previous time in its history. Likewise, unfilled orders were larger than ever before. Backlog totaled $285,000,000, of which about 70 per cent was in connection with the national defense program. Orders booked in the first three months of this year amounted to $145,620,948, or 123 per cent ahead of the same period of 1940. However, some of the edge was taken off all of this good news by the statement of the president: "In view of the unprecedented increase in the company's business which is largely due to orders for national defense, the thought might arise that profits during the coming year will be high. The business of the company should be good, but after meeting taxes and ordinary and extraordinary expenses, profits will not be above normal. As a matter of fact, unless commercial business keeps up, some divisions may operate at a loss."

Louisiana & Arkansas 1st 5's '69

Among medium grade bond issues attractive on a yield basis, Louisiana & Arkansas 1st mortgage 5's, 1969, seem worthy of investment consideration. Recently quoted at 86, the bonds afford a current return of 5.8 per cent. The road, controlled by Kansas City Southern, is comparatively small. Its 725 miles of line extend from north Texas to New Orleans, while another division extends from southern Arkansas south and east to Alexandria and New Orleans. Traffic composition includes petroleum products, forest products, sugar, gravel, sand and cotton. Funded debt, in addition to the $16,000,000 first mortgage bonds in question, includes $700,000 equipment trust certificates. The road was one of that select group of carriers which was successful in earning fixed charges in every year of the depression '30's. Recent years have shown an improved margin of coverage for fixed charges: 1.82 times in 1940, which compared with 1.89 times in 1939, the most favorable margin in recent years. Maintenance expenditures have been on a generous scale, and if necessary it is possible that sufficient savings could be made in this item to enable the road to largely offset the increased wage bill which will be in effect this year. Gross revenues rose 8 per cent last year, while net operating income was up 9 per cent. Financial position is comfortable. With the likelihood that the road's territory will experience further industrial growth, current prospects appear favorable for further important gains in both gross and net.

1941 Aircraft Round-Up

(*Continued from page 28*)

(see table for those companies producing commercial planes) have by no means lost ground in their original aims for great passenger and cargo fleets of the air. Extremely rapid write-downs of new plants—five years, or less in some instances—will contribute toward giving the industry a sound base for the eventual commercial and civilian plane boom, but some of the currently borderline companies and many new companies which ultimately place a stake in the aviation industry will find the competition from the well-established companies too difficult to survive through the inevitable occasional lean periods.

As I See It!

(*Continued from page 7*)

by the uncertainty of unfriendly French in Syria. If the Axis wrests control of the Mediterranean from the British, there is little doubt that Turkey will permit the transit of German troops through her territory. A victory in the Mediterranean would enable Hitler to break the British blockade.

The Nazis are promising the earth in their diplomatic offensive and while the British too have been bargaining similarly, it is a matter of who can deliver. However, as we all know, there is many a slip between the cup and the lip, and much can happen to upset Hitler's calculations.

There is one thing that should have given us an indication as to Britain's real strength in the Near East and that is Britain's failure to attack the Roumanian oil fields, her failure also to declare war on Bulgaria and harass German concentration of troops, munitions and supply lines there last winter. This is a crucial time in the life of the British Empire and it does not seem reasonable to believe that the British would stand on technicalities at such a time if she had been sufficiently strong to back up a declaration of war on either Roumania or Bulgaria under the circumstances.

AND NOW

If German losses are too great, it is quite possible that Hitler will seek to establish a line in the hope of forcing the Allies into a defensive position. At the same time, he will attempt to push ahead into Egypt and if the opposition gets too strong here, he is likely to resort to the same tactics. Simultaneously we can expect Hitler to make an all-out attempt to take the British Isles and that Japan will use her newly gained freedom to move southward.

In the meantime, the danger for the United States grows, for a victorious Germany would greatly affect the attitude of South America towards the United States. It will encourage underground Nazi and Communist movements to stir up trouble internally.

It seems that the time has come for our Government to take drastic steps to solve our internal problem—to adopt the necessary measures to assure ourselves of adequate protection. For months now, our war effort has been held back by those who either refuse to recognize that the British Isles constitute our first line of defense or by subversive elements and fifth columnists who were deliberately trying to sabotage our efforts at a time when production and delivery of material should have been at its peak. How much longer will we continue to dawdle or muddle through? This is the time for action if we are to meet the issue squarely—ie., whether Berlin or Washington is going to be the capital of the world, because the burden of the defense of the democratic way of life is falling on our shoulders.

BOOKS . . .

For the Business Man

THE UNITED STATES AND JAPAN'S NEW ORDER

WILLIAM CRANE JOHNSTONE, JR.
Oxford University Press. 385 pp. $3.00

Whether or not the United States and Japan ever engage in war, Jana is certain to figure prominently in many of our forthcoming international policies and decisions. This is a book which should fully acquaint the general reader with all phases of the Japanese question and, the issues involved, laid against a broad historical background. The author concludes his book with definite advice and recommendations designed to preserve our prestige and status in the Far East. The author is well qualified to present a realistic case and brings to his discussion a wealth of knowledge gained through many years of travel throughout the Far East.

THE ARMED HORDE 1793-1939

HOFFMAN NICKERSON
Putnam. 425 pp. $3.50

Mr. Nickerson in his previous books dealing with military subjects firmly established his analytical and discoursive ability to deal with the methods and theory of military enterprise. In his latest book the author undertakes a study of the rise, survival and decline of the mass army. The final chapters deal with the search by military people everywhere for more economical methods, and the results of a new military theory in the opening stages of the present war. The student of military science will find this an invaluable and timely contribution to the subject.

THEY'LL NEVER QUIT

HARVEY KLEMMER
Wilfred Funk, Inc. 321 pp. $2.50

This book by a former attache of the American Embassy in London is exciting reading. Mr. Klemmer points out in no uncertain terms that England can take it. What is more important, he tells about the morale of the average man and woman. According to the author, their spirit is undaunted. They'll Never Quit is replete with grit, humor, danger, and hope.

THE SOVIET POWER

HEWLETT JOHNSON, Dean of Canterbury
Modern Age Books. 352 pp. $2.50.

If these are the facts . . . and one can hardly doubt that they are not, coming from so able a scholar, writer and churchman . . . reading this book should prove a revelation on what the Soviet has accomplished, economically, industrially and educationally. The pro-Soviet sentiments of the writer are obvious and the reasoning sometimes too much of an idealist oblivious of the realities of Russia's position in the present world conflict . . . but his appraisals of the internal situation of the U.S.S.R. are there for those who are willing to weigh them with an open mind.

UNDER THE IRON HEEL

LARS MOEN
J. B. Lippincott Company, 350 pp. $2.75

A factual story of Belgium under Nazi occupation from May until October, 1940 Mr. Moen arrives at some interesting conclusions . . . the Belgians believe that the Germans will not win the war . . . the morale of the German soldier is not all it should be, although it will be a long time before it cracks. The food problem is growing acute. Although there is still food in Belgium, raioning is becoming stricter. The average person receives food sufficient for one inadequate meal per day.

RANDOM HARVEST

JAMES HILTON
Atlantic Monthly. 327 pp. $2.50

A story of an Englishman, Charles Rainier, an industrialist, mmeber of Parliament and a magnate. Rainier was in the last war and was a victim of shellshock. He rediscovers his identity, but there is always a dark corridor in his mind. At times he recognizes faces and places from his past, but these are only momentary flashes. Finally, under rather unusual circumstances, his lost years come back.

AXIS AMERICA

HITLER PLANS OUR FUTURE
Robert Strausz-Hupe
G. P. Putnam's Sons. 274 pp. $2.50

A very clear statement of the attitude of Germany, Italy, and Japan toward the United States There disclosures are based on actual documents that have been circulated in the Axis countries. The Nazis, according to the author, have plans to make us conform to their own ideas. He tells of Germany's plan to destroy the United States and to dominate South America.

DELILAH

MARCUS GOODRICH
Farrar & Rinehart. 496 pp. $2.75

'Delilah was very slim and light. She was always tense, often atremble . . . '' Delilah was a destroyer in the United States Navy. This is an exciting book, adventurous and full of suspense. Mr. Goodrich tells us of Delilah and of the officers and men aboard her. It is a story of the Navy and its traditions.

CHINA SHALL RISE AGAIN

Mme. Chiang Kai-Shek
Harper & Bros. $3.00

Mme. Chiang Kai-Shek does not devote her talents in this book to propogandizing the Chinese cause, but presents her case frankly and revealingly. The book is replete with criticism of Chinese faults and weakness. The major point, however, is the great strength which China is drawing from her adversities and the growing unity and progress which may in the end prove to be a real boomerang to Japan's efforts to establish a "New Order"

These books may be ordered from The Magazine of Wall Street book department.

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